the MANAGEMENT REVIEW

the month's best in business reading . . .

DECEMBER, 1949

AMONG THE FEATURES

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AMERICAN MANAGEMENT ASSOCIATION

In the Tradition of American Management

GENERAL MANAGEMENT CONFERENCE

ST. FRANCIS HOTEL, SAN FRANCISCO • JANUARY 18, 19, 20, 1950

The direction of a business enterprise is an occupation that has called consistently for greater precision on the part of the executive. The modern business manager is aware that the theatre of his operations does not grow more familiar but changes constantly. He is continually challenged by the science of management itself as practiced in the various fields of production, finance, marketing, etc.; and he is continually challenged by the change in people as expressed through their government, their personal philosophies, and the social organizations of which they are part.

It has been said with considerable truth that one of the factors that have helped American business to maintain the management awareness and resiliency necessary for success under these conditions has been its own habit of comparing notes and exchanging information and experience. It will be in this tradition and in consonance with past conferences of the American Management Association that this Mid-Winter General Management Conference will be held.

The Association's officers and directors take particular pleasure in the fact that the sessions will be held in San Francisco. It is hoped that members of the Association throughout the 48 states and Canada will respond to this invitation.

The following questions will be discussed from the operating point of view, with a background of case stories and company experience:

HOW WILL management ultimately be affected by the changing "security" concept in America?

HOW IS management meeting the challenge of research and technology?

HOW IS the small organization building resources for efficiency?

HOW IS the problem of finding equity capital being handled?

HOW ARE well-managed organizations effecting programs of cost reduction in plant and office?

HOW ARE sales organizations streamlining their operations?

HOW ARE the indirect costs of merchandising being controlled?

HOW IS the profit incentive utilized at the operating levels of management?

This Conference is open to both members of the Association and non-members.

AMERICAN MANAGEMENT ASSOCIATION
330 WEST 42nd STREET, NEW YORK 18, N. Y.

M. J. DOOHER, *Editor;* ALICE SMITH, *Research Editor;* VIVIENNE MARQUIS, *Associate Editor;* EVELYN STENSON, *Digest Editor;* HELEN F. HOUGH, *Assistant Editor*

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the MANAGEMENT REVIEW

Volume XXXVIII No. 12

DECEMBER, 1949

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General Management

Industry's New Responsibility

TODAY, as never before, people are expressing their deep human urge for security, recognition, and inner satisfaction—as well as for material gains. And it is management's job today to insure the attainment of that security to the maximum degree. Our society is now undergoing far-reaching changes. The final form it will take is not yet visible to us, but we—the leaders of business and industry—by our action and inaction, will be the major factor in shaping it. It is management that will ultimately determine whether we shall have a society of free people, with a high standard of material and cultural living, or a slave state, which provides only a drab and dubious security.

Most of the countries of the world are currently drifting into totalitarianism. If the United States is to avoid going in the same direction, we American business men will have to become a great deal more objective in our thinking.

First, we must understand what inevitably brings "statism" about, and be sure we don't make the same mistakes here. We've got to realize that the end result of policies such as those of Czarist Russia could hardly have been any different than it has been. Much the same situation applies to other countries of Eastern Europe, where blind and decadent leadership had long let the mass of people stagnate in poverity and insecurity. True, our dynamic economy has always seemed immune to any such revolutionary danger. But a real understanding of what has taken place in Eastern Europe will not only give us some tolerance in dealing with other peoples but will point up some highly significant factors for us.

We should realize, too, that the rapid trend to the left in Western Europe and in England has by no means been just the result of two world wars, nor has it been because of the generic characteristics of the peoples involved. It was caused basically by capitalistic systems which were not sufficiently democratic and competitive. It was caused by the failure of the leaders of capitalism in Europe to realize that, in seeking security for themselves—by combines, cartels and other restrictive devices—they enervated their systems to the point where they no longer provided ever-increasing production, rising standards of living, and new opportunities for the people they served.

And certainly the industrial leaders of Europe had no concept of any social responsibility comparable to that which is just beginning to show itself in this country today. Business leaders of the old world, in seeking to preserve themselves by leaning on government, and even by supporting the concept of a welfare state in order to ward off communism, actually signed their own death warrant.

They failed in many other respects too—in humanizing their relations with employees, in educating the pub-

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lic on the economic facts of life, and most of all, in identifying themselves with the good things of life by trying to provide privately and voluntarily, as fast as the growth of industry would permit, the benefits and securities every human being so urgently wants.

It seems to me that we greatly underestimate the appeals of socialism and the welfare state. Put yourself in the shoes of an average American worker, or even in the place of his white-collar counterpart—the clerk, the teacher, the bookkeeper. And ask yourself how these things would look to *you*: Complete medical protection, adequate pensions upon retirement, broader educational opportunities through federal aid, guaranteed annual wage, full employment, etc. "If all these good things are really socialism," the worker may well be saying, "then obviously a socialist is the thing for me to be."

Their counterparts appeal to us as business men too. It is human to want security, and it is right to have it—as fast as we can earn it. The floor of security has risen constantly since the dawn of civilization. Even the reactionary who rants the most about the "good old days" would be floored if he had to face the rugged life of his forefathers. Security will continue to increase. The trend only becomes threatening when the ceiling of opportunity fails to rise as fast as the floor of security.

What happened to the 15,000,000 unemployed whom so many used to say really didn't want to work? When jobs were open, they took them. We must not be blinded by the few drones in all walks of life. We must not act and talk as if all effort by workers to gain security, other than stringent self-denial and saving, were wrong—while at the same time we do everything in our power, by skilled salesmanship and advertising, to induce them to spend every last dollar and more.

In pondering this, and all other current issues, we should remember the advice of that great conservative, Edmund Burke, that the "state without the means of change is without the means of its conservation." The true conservative realizes that the best in the past was not static. It was moving. Our problem is to see that we keep on moving ahead in our time, in an orderly manner, as fast as we can go, without recklessness. Civilization as it progresses must bring to more people the good things of life—not just in the material standard of living, but more equality of opportunity, more basic security, and more individual satisfaction and recognition. Our problem is to bring these things about within the framework of democracy and freedom—to provide them to the maximum under our free enterprise system, relying on government to the minimum.

I will readily admit we can't provide, in any manner, all the security and other benefits the mass of our people want, as fast as they appear to want them, and are told they can have them by agitators and radicals. I will admit, too, that there is a tremendous amount of educating on the economic facts of life that we have to do with our employees and with the public. And I will admit there are far too many union and government politicians who respond too readily to the unthinking demands of the public, rousing envy and hatred for their own ends. But I'm confident that with real leadership we can overcome these obstacles.

When sales research shows that the public wants a new feature on a product, what do we do? Do we begin looking for excuses not to provide it? Do we say it's too costly, the public can't afford it and therefore shouldn't

have it? Do we then enlarge our advertising budgets in order to tell the public, like a Dutch uncle, that the new feature it wants is impractical, costs too much, and it had better forget about the whole thing; that the product, as it stands, is the best the world has known, and the public is lucky to have it; that, as a matter of fact, we'd all be better off if we cut out some of the popular features it now has, and returned to the "good old product" of 20 years ago? How much stock would you like to own in a company with that sales philosophy?

Yet, don't we react just this way when the public shows its desire, its "buying preference," for new things in the social and economic markets?

We have always prided ourselves on being a sales-minded nation. And, so far as sales are concerned, the great majority of business and industrial leaders have been progressives and even radicals—that is, throughout history, they have been receptive to change; more than that, they have been crusaders for change. In sales, when the public demands a new convenience, we see that it gets it. And most of the time we anticipate the demand, and even create one where none existed. If such conveniences are impractical—well, we find that all the more reason why they should be produced. "The difficult we do at once; the impossible takes a little longer." That's typical American humor—humor that reflects a state of mind we are proud of. In sales we act on the premise that we're going to lick the problem, and eventually we do it. And we do it not from any sense of altruism, but because we know if we don't, someone else will, and the market will be theirs, not ours!

Isn't it time we in business and industry looked at the goals of socialism with a sales manager's eye, to see how nearly we can meet them in private enterprise? Isn't it time we attacked the problems of the social and economic needs of our people with the same optimism, enthusiasm and determination that we give to solving our sales problems? Isn't it time we began anticipating social and economic reforms, as well as the spiritual needs of man, instead of acquiescing, step by step, in bitter frustration, to government?

This does not mean that we should expect or even try to meet all these needs overnight. But we should stop talking negatively to the public in dogmatic theory. We should begin talking and acting positively in our stores, plants, and communities, to show we at least are trying to give the public some of the things it wants and needs. And if we can't give them these things, we should present alternatives, and sound reasons why we can't.

The nation's doctors are facing a real battle today. They are finding that more people than they supposed are ready to go along with the government's proposal for national health insurance. Naturally, they oppose the proposal. They argue it is a step toward socialism, as, of course, it is. They argue that standards of medical and hospital care will deteriorate rapidly if the government assumes control. And there is strong evidence to back them up. But will they win their battle with persuasive logic, with talk about socialism, with leaflets and broadsides in their waiting rooms? I doubt it.

Suppose, however, that they spent an equal amount of effort and money in a positive way, through their local medical societies at the community level, to wage intensive campaigns to get every eligible citizen signed up with Blue Cross, or some other voluntary insurance group. Suppose they underwrote fact-finding committees to

see how voluntary insurance might be made to give more protection against the sudden illness which wipes out savings and piles up debt; to find ways to bring medical care to marginal regions that need it. And suppose, too, that we in business backed them up by supplying more adequate funds for our hospitals, our Community Chests, and other private social services. The demand for government action would lessen, and the ultimate victory would be a great one for the cause we all believe in.

The argument may be made that any additional benefits a company can afford to give must be held back for trading at the bargaining table; that it is an impossible task to keep pace with all union demands in any case, and the only sound philosophy is to hold back as much as possible. To my mind, such an attitude is an abdication of leadership, and a resignation to a philosophy of permanent and unalterable conflict—which the experience of hundreds of successful companies in this country denies.

Along another avenue, it must be obvious to any thinking person that the greatest threat to the continuation of free enterprise and our free way of life is the business cycle, and the mass unemployment its depressions bring. What can we do to stabilize it? This is the big question that has been lurking in the backs of our minds since the thirties. We have never really hauled it out in the harsh light and looked at it to see what we as business men could do about it.

Management is not wholly responsible, of course. But there is little use in storming about what political and union leaders should do about it unless we accept our share of responsibility and act ourselves. Of course, I don't mean we can ever insure our economy against all fluctuations; but we can do a great deal to minimize them. And if we don't, I doubt that we will have any free enterprise system a generation from now.

We should have learned something, for example, from the recent recession. It was only a small dip, to be sure, but it was a discouraging one, in many ways. And the discouraging thing about it, to me, anyway, was the fact that business action, or lack of action, seems to have contributed more to the dip than any other single factor. Our unwarranted and panicky reductions of inventories caused needless unemployment. And unemployment today must be judged, not so much statistically, but by its psychological effects on men's minds and souls. It is the red flag which can do the business community more damage than all the communist orators in the world.

Obviously there is a limit beyond which no individual business man can go in placing public interest above the security of his own business, but we need to explore that limit. We haven't nearly found it yet.

There are other points from which we can mount offensives within our businesses and industries. Consider profits. They are a great point of contention today. It is my belief that profit sharing, in some form or other, is one of the best means of preserving the free enterprise system. Every first-grade teacher knows that education is most effective when it involves *participation.* We in business have bemoaned the lack of basic economic knowledge that exists among workers. We urge our employees to increase their efficiency, their productivity; we explain the economics of our system, and the necessity of profits. But, when all is said and done, without profit-sharing in some form, aren't we pretty much wasting our breath?

Employees, after all, do have a stake

in the business in which they invest a part or all of their working lives. And, after a reasonable return has been paid to stockholders, it is only fair and just that employees share any return beyond that. It is an antiquated concept to draw a profit line—a battle line—of distinction between capital and labor, while giving lip service to "partnership."

There is also another aspect of security which business men need to examine. That is the emotional security which all men need. Material prosperity is not enough and never has been. I recently read a quotation from Dostoevsky, the Russian novelist, that impressed me greatly:

> Shower upon man every earthly blessing. Drown him in a sea of happiness, so that nothing but bubbles of bliss can be seen on the surface; give him economic prosperity such that he should have nothing to do but sleep, eat cakes, and busy himself with the continuation of his species; and even then, out of sheer ingratitude, sheer spite, man would play you some nasty trick . . . simply to prove to himself—as though that were necessary—that men are still men and not the keys of a piano.

Translated into practical terms, this means we, particularly in our larger business units, must find more effective ways of treating our employees as individuals—with as much basic dignity and integrity as we have. They must be dealt with frankly, honestly, sympathetically and fairly, and they must have individual recognition in every way possible.

I have always believed that the foundation of good human relations must be faith—faith that human beings, by and large, will respond in kind to fair and sympathetic treatment. We certainly know that human beings are motivated by what they feel, and no one is likely to feel right and cooperate unless he is in an atmosphere of sincerity, human warmth and fair play. The farther away we get from the people on whom we must depend, the greater must be our effort to create and convey that atmosphere, because it is the only climate in which the human soul thrives and grows.

Business needs to get off the defensive and to take the offensive on a broad and political front. It needs to associate itself with the legitimate aims of society as a whole. This does not mean we can or should sponsor every scheme for welfare and security that comes along. We can't. But we can effectively oppose those things which are unsound only if we have associated ourselves with social objectives that are sound.

Several years ago Walter Lippmann analyzed the position of the American business man. He cited de Tocqueville's study of the English and French societies of a century ago. The French statesman had concluded that British aristocracy survived at that time because its members had accepted large responsibilities in return for the privilege of governing, while the French nobility had fallen because it couldn't bring itself to give up its special consideration and immunities. Lippmann said U. S. business was faced with the same alternatives today, and that it would survive or fall, depending on the choice it made. The great danger to us all, he said, was that American business would make the same mistake as the nobility of France—that it would brood over its grievances, lost prerogatives, and diminishing immunities, instead of concentrating on the commanding position it held in national and world affairs.

Lippmann did not mean, of course, that we are an aristocracy of class. But he did mean that we hold a comparable position of power and respon-

sibility. He did mean, as that great contemporary historian, Toynbee, has pointed out, that unless there is a dynamic leadership to meet the challenge and the ever-changing needs of an evolving society, that society and all that goes with it will collapse.

It will cost us money and time, but we in management must accept social responsibilities, just as they are accepted by educators, the clergy, and leaders in government, labor, and the other professions. We must use our tremendous potential leadership for the public good, not only in our relationships with employees, but with our communities, our nation and the world.

—From an address by Walter H. Wheeler, Jr., before the Boston Rotary Club.

Who Owns Big Business?—A New Survey

THAT America's largest corporations are owned by millions of small stockholders rather than by a small group of the financial elite is confirmed by a new study, just published in *Trusts and Estates*. The survey covers the country's 254 biggest utilities, transportation, manufacturing, and other corporations with total assets of over $92 billion, and shows an aggregate of more than 10 million stockholders, with three out of five owning 100 shares or less. It is also shown that stockholders outnumber employees in the ratio of approximately 8 to 5.

Individuals account for 80 per cent of all stockholders and own an average of 58 per cent of the stock. The other 20 per cent are group owners, with 42 per cent ownership, and clearly are the holders of the larger blocks. The group owners, numbering 455,651, are for the most part institutions and fiduciaries, and the dividends on their stock holdings are of indirect beneficial interest to others.

In 43 of 67 companies showing the breakdown, women outnumbered men stockholders, with two companies reporting women holders as high as 65 per cent of all owners. The average of women stockholders for all companies reporting this breakdown is 45 per cent in numbers, 28 per cent in holdings.

Concrete evidence of the wide ownership of America's big corporations is indicated by the fact that in only 41 of the companies studied are there fewer than 10,000 stockholders, while 17 companies reported more than 100,000. The largest number of holders for any one company is 700,000, with the average for all companies at 34,485.

Meaning of Work

MARX was right when he said work was a big factor in the development of man, but he was fatally wrong when he made it merely an economic factor. For work is not merely an economic factor, a means for making money. Money is only a means to living. Work is an essential part of life itself. To make work merely a means of making money is to make it a means to a means. It is to place what should be the center of existence at two removes from life. It is to empty our working hours of all real significance. That way boredom lies.

—JOHN C. KELLY, S. J., in the *Irish Monthly* 10/49

MIDWINTER GENERAL MANAGEMENT CONFERENCE

The Midwinter General Management Conference of the American Management Association will be held on Wednesday, Thursday, and Friday, January 18-20, 1950, at the Hotel St. Francis, San Francisco.

The Economic Outlook for 1950

WHAT is the nation's economic outlook for 1950? This over-all question, broken into its primary components, was recently put before a panel of 108 leading economists—56 of them connected with private business and financial institutions, 52 with colleges and universities—by the F. W. Dodge Corporation, of New York City. The principal conclusion to be drawn from the tabulated answers is that further readjustment will characterize the American economy between now and the middle of next year, with a moderate rise to follow during the latter part of next year. Some of the other salient findings are presented below.

A majority of the economists anticipate a decline from this year in the number of dwelling units to be built in 1950, and a decrease in private nonresidential building. These building declines will be counterbalanced to a degree by an increased dollar volume of public building and engineering work.

Opinion as to physical production during the remainder of this year was mixed. The largest number of respondents (38.31 per cent) expect a moderate decline, yet almost as many (33.64 per cent) expect a moderate rise, and a substantial number (26.16 per cent) foresee insignificant change. As for the first half of next year, the largest number (41.12 per cent) expect a moderate decline, while opinion was almost equally divided between those who foresee insignificant change (27.10 per cent) and those who predict a moderate rise. A substantial number (43.87 per cent) anticipate that a moderate increase in physical production will be made in the last half of 1950.

A definite majority of the economists (54.20 per cent) expect total civilian employment to remain approximately stable during the remainder of this year, and almost half (45.37 per cent) predict that it will remain stable in the first half of next year. The survey showed that 36.36 per cent expect civilian employment to move upward during the last half of 1950.

The economists were asked: What is your expectation with regard to wholesale prices? Where do you think the BLS Index—152.4 as of August 30, 1949—will stand on December 31, 1949, on June 30, 1950, and on December 31, 1950? The median expectation is an index number of 150 at the end of this year, 148 at the end of next June, and 146.5 at the end of 1950.

The majority of the respondents to the survey (81.73 per cent) expect the trend of the wholesale prices of farm products to be downward during the next 15 months. The largest number of those queried (48.51 per cent) expect wholesale prices of metals and metal products to show a downward trend during the same period, but a substantial number (36.63 per cent) anticipate approximately stable prices, and some (14.85 per cent) expect an upward price movement. Wholesale prices of building materials are expected to move downward by a clear majority (53.92 per cent) of the respondents.

The results of the survey indicate that the BLS cost-of-living index—168.5 as of July 15, 1949—is expected to stand at 167 on December 31, 1949,

165 on June 30 next year, and 163 on December 31, 1950.

Most of the economists polled predict that wages will remain generally stable during 1950, and the opinion is overwhelming that many industrial workers will receive benefits equivalent to wage increases during next year.

Less than one-fifth (19.62 per cent) of the economists expect an increase in total consumption expenditures in 1950. A substantial number (42.99 per cent) anticipate a decrease, however, and many (37.38 per cent) expect expenditures to remain about the same next year.

Office Management

How to Mechanize an Accounting Office

MANAGEMENT today needs up-to-date information for quick action. The contemporary science of managerial control through accounting rests firmly upon a foundation of accounting machinery. Such managerial control requires a great volume of information, *promptly* reported. Manual methods not only are prohibitive in terms of cost but are hopelessly slow. The needed information is made readily available through the application of accounting machinery.

The increased productivity made possible by the machinery does not imply the elimination of personnel. Usually, especially in well-planned installations, the same personnel are employed, but the machinery is used to provide valuable statistical information for management, not previously obtainable.

Accounting machinery, *properly applied,* offers a number of advantages over manual methods. Outstanding among these are: accuracy of mechanical computation; simultaneous entry on more than one record; elimination of monthly peak loads by daily automatic balancing; mechanical proof features that result in the detection of an error promptly after it is made; release of human talent for more important work (tasks which require foresight, tact and judgment) since machinery performs the tedious, and routine work. In addition, a machine method may be less costly than a manual method.

On the other hand, due to the many factors involved, a machine method is not always preferable to a manual method of accounting. Mechanization cannot guarantee accuracy. If the operator puts the wrong amount into the machine, for example, the result will be incorrect. Moreover, simultaneous entry can be obtained with manual records, e.g., the collating and writing board. Similarly, peak loads can be eliminated by other means, for instance, through cycle mailing of statements, with the ledger divided into the proper control groups. In some industries, there is a definite trend toward the complete elimination of statements.

Despite the demonstrable advantages of machinery, furthermore, some bookkeepers have a strong preference for manual methods. This point should be weighed when the advisability of mechanization is being considered.

In addition, a manual method may

be less costly than a machine method.

In view of the complexity of the problem, how are we to decide when to mechanize? How can we determine what specific equipment to choose? There are certain principles which may guide us:

1. The simplest and least involved method which satisfies all the requirements is probably the best.
2. *The tool concept of mechanization*: Any office machine is merely a tool to perform some basic clerical operation. According to this concept, we do not approach a problem by saying, "I want a machine to do my payroll." We say, rather, "My payroll problem is composed of elements which involve writing, computation, duplication of written information, and classification of this information. What equipment is available to facilitate these basic clerical operations?"
3. *The principle of fair comparison*: The best variation of the manual method should be compared with the best variation of the machine method.

Intelligent application of machinery to the accounting office requires a knowledge of the equipment available. Here are some methods of keeping informed on equipment:

(1) Join a professional group that will keep you abreast of new developments in the office equipment field.
(2) Subscribe to magazines in the fields of office management, accounting, and financial management. Also, occasional articles on accounting machinery are published in magazines of general business interest.
(3) Get on the mailing lists of the equipment manufacturers. Study their literature.
(4) Visit showrooms for equipment demonstrations.
(5) Talk with equipment salesmen.
(6) Attend business shows.

In addition to a knowledge of equipment, familiarity with procedures is essential. If we consider, for example, accounts receivable, there are available the following basic types of mechanized procedures (each with its own variations) which might be applied: (a) open-item plan; (b) unit plan, with ledger entry a carbon of the statement; (c) fold-over bill plan, with credit history; (d) "bookless bookkeeping"; (e) cycle billing.

Since the office has lagged far behind the factory in the application of machinery to repetitive tasks, there is a great need for well-planned mechanization. The approach suggested here will help prevent costly errors.

—From an address by Michael A. C. Hume at the Office Week Forum of the 41st National Business Show, New York, N. Y.

Launching a New Office Building— A Study in Public Relations

ASK any one of the General Petroleum Corporation's 6,000 employees from Anchorage, Alaska, to Bisbee, Arizona, and he'll tell you that the new General Petroleum Building in Los Angeles is the finest office building ever built in the West. He'll make no effort to conceal his pride in the structure; and while he's telling you about its many architectural wonders, he'll almost certainly mention that the building is dedicated to the company's employees.

Those architectural wonders, which include movable interior walls, a 3,400-horsepower weather-making plant with weather selectors in each of 1,000 offices, and a light-weight construction which caused national comment in both

the architectural and general press, were bound to make an impact.

The company's officials wanted the impact on the general public to be a favorable one. But they were particularly concerned about making a favorable impression on their employees—both the 1,000 who would work in the building and the 5,000 who would not. Here's how they went about forming that impression:

From the time ground was broken in the summer of 1947 until the official dedication in the spring of 1949, employees were kept up to date with the progress of the building. Construction pictures appeared in every issue of the employee magazine, *Doings in General.*

The dedication ceremonies were scheduled several weeks after the home office employees actually moved in so that the employees would have plenty of opportunity to get settled before they went "on show."

At the dedication ceremonies, which were held on the roof of the building, the company's president, Robert L. Minckler, said:

> In the presence of the Governor of our State, the Chairman of the Board of Supervisors of our County, the Mayor of our City and the other distinguished officers of government who have honored us by coming to this ceremony, it would be fitting to dedicate this building to some great cause of public service. Or it would be appropriate to dedicate it, as an efficient workshop, to the American system of business, or as a thing of beauty to the glory of our community.
>
> But any such dedication would not represent what is really in our hearts today. There is a group of people who have made our company grow and prosper, who are responsible for our position in the business world. With pride in their accomplishments and with gratitude for their services, we dedicate this building to them—to the employees of the General Petroleum Corporation.

The president's words were carried by the building's public address system to every employee at the home office.

In addition, the company purchased time on 33 stations of the American Broadcasting Company's Pacific Network just so employees in the far-flung corners of the West and on tankers at sea could hear. The dedication ceremonies were woven into a radio program along with the speeches at the dedication luncheon to comprise a complete 30-minute account of the day's events.

Among the honored guests at the dedication ceremonies and at all the subsequent events of the Dedication Week were seven "Popularity Queens," representing all the company's employees. They were elected by their fellow-employees in each area where the company operates. The Queens, who ranged in age from 26 to 56, received a royal welcome during their stay in Los Angeles and visited dozens of points of interest in the area.

The dedication was held on a Friday. Public tours of the building were scheduled for the following two weeks. But the first two days after the dedication were reserved for employees and their families. Preparations were made to receive about five to seven thousand people. Over twelve thousand showed up!

The visits were completely informal. The visitors were given a brochure describing the points of interest, a "map" of the floor layout, and allowed to visit wherever they pleased. The top executives of the company were on hand in their offices and many hundreds of guests shook hands with the president, the two executive vice presidents and the other officers and directors.

At different places in the building, tape recordings were played on the public address system describing the architectural features of the building

and the operation of the equipment it contains.

Many individual departments built displays explaining their scope and function. Department managers were on hand to greet employees and their families in each departmental office.

In the building's auditorium, there was coffee and cake, ice cream and punch. The unexpected throng threatened a crisis in the refreshments department. General Petroleum executives, used to feats of oil production and refinery engineering, are still wondering where the caterer got hold of several thousand additional helpings of cake and ice cream on a Sunday afternoon.

● A SMALLER PROPORTION of women in clerical and sales work are married than of women in any other major occupational group, except professional and semi-professional workers—29 per cent as against with 35.4 per cent for all occupations in 1940. Women in clerical work are less likely to have either the more imperative financial incentive of industrial women workers to continue work after marriage or the desire of the professional woman for a career. The proportion of married women clerical workers, as of other occupations, however, has increased in the last 20 years.

—*The Office* 10/49

Personnel

Developing Better Supervisory Teamwork

"NOBODY ever tells me what I'm supposed to do around here; I'm only the foreman." A classic complaint—but one that is no longer heard at SKF Industries, Inc. Largely responsible for this change—and for the generally healthy atmosphere in SKF's supervisory family—is the company's Management Development program.

Major objectives in the Management Development program are to: (1) give every supervisor full information on company policy and the means of putting it into effect, (2) make clear to all supervisors their place in the company organization and their responsibilities in meeting company objectives, (3) provide for each member of management the specific training he needs to realize his full potential on the job and to prepare himself for future promotions, (4) weld this well-informed, thoroughly trained group into a hard-hitting, coordinated management team that will assure high production at lowest cost and greatest customer satisfaction.

In doing this job, SKF has employed, in addition to the time-tested methods, several techniques that are noteworthy in the field of industrial education and training.

One of these is the Responsibility Seminar. Early in the Management Development program, the factory manager and his staff of superintendents realized that defining their own responsibilities must be the initial step in clarifying the responsibilities of all other members of factory supervision. For this purpose the groups decided to meet one

evening every other week with the training director as guiding chairman. It was in this way that the Responsibility Seminar program came into being at SKF.

First item on the seminar agenda was to develop a statement of the over-all purpose of the factory division, including objectives and methods of attaining them. When this had been done, the group turned to the question of individual responsibilities, starting with those of the top executive. The factory manager drew up and presented to the seminar a list of what he believed to be his full responsibilities. These were thoroughly discussed by all present and were revised by common consent until a list agreeable to all was obtained. Next, each man in turn presented his list for similar discussion and agreement, until all positions had been covered.

Members made no attempt to set up job descriptions or to outline details of how responsibilities were to be carried out. Their goal was to establish a broad framework within which each superintendent could function in helping the manager reach the objectives set for the entire Manufacturing Division.

But the seminars for the factory manager's staff were only the starting point. Armed with the list of their own responsibilities, superintendents then conducted seminars for their general foremen. They, in turn, did the same for their immediate subordinates. And so the program went until every level of management had been covered.

Beneficial as seminars are, however, the job is only partly done if management stops at this point. At SKF the results of the seminars have been included in a manual, entitled *Manufacturing Division Policy & Responsibilities*. The manual is given to each supervisor, is reviewed periodically, and is supplemented each year by special company objectives on which supervision agrees to concentrate.

Another management development project that makes clear the relations among all supervisory personnel is the Manufacturing Division organization chart. Listing every member of management from president to shift foreman, charts are displayed prominently in the office of department heads for all supervision to see and use.

Supervisors, however, have many other needs for information. Not only must they know *what* to do—they must know *how* to do it. And "how information" itself falls into several classes.

First, there is the proper procedure for taking action on all matters concerned with the daily job. No foreman can be expected to remember all the details for handling every circumstance. So, SKF has compiled a *Supervisory Reference Manual* containing complete factual information on administrative procedures. Transfer policies, rate structures, fire or accident emergencies, and suspension and discharge policies are among the 80 subjects included.

Directly the result of the supervisory quest for information is the *Labor Case Book*. Foremen wanted more details on the handling of the grievance procedure on cases in departments other than their own. So, SKF now supplies its supervisors with copies of all original grievances together with the foreman's answer and the final position agreed upon by the union and the company. The book is one more tool in the hands of the foreman to help him in interpreting company policy and in establishing sound labor relations at the most important area of contact between employer and employee—the working level.

Toward the same goal, SKF recommends that supervisors discuss general company and departmental problems with the steward. The practice not only

builds the confidence of workers in the company but also leads to greater common knowledge and the elimination of misunderstanding. About 75 per cent of the SKF foremen have found that this method really works and is making their job easier.

One of the first steps in the management development program was to survey all jobs in first- and second-line supervision for the purpose of establishing a sound basis for training plans.

Personal conferences in small groups with all superintendents, general foremen, and foremen supplied the data requested in an interview questionnaire designed especially for the survey. Specific duties and responsibilities were listed for ten main areas in the foreman's job. For each entry, the supervisor indicated the *degree* of control exercised by the foreman and the *weight* of the item in each of three other categories: *importance* in getting out production, *difficulty* experienced in handling, and foreman's *need* for training.

Also included in the questionnaire was a check list of the foreman's relationships with other plant activities. Training desired was the third class of information requested, with questions covering such items as discussion topics, manner of presentation, and length of class or conference periods.

The survey not only showed up training needs for which specific classes of instruction were organized, but also supplied data that aided in the planning of the Responsibility Seminars. From the survey came a list of what each person believed his responsibilities to be, and these lists formed the basis for outlining the general foreman and foreman seminars in which final responsibilities were determined.

Seminars, in turn, added to SKF's knowledge of its supervisors' training needs. In frank and open discussion, seminar members came to realize the areas in which they were weak and were thus stimulated to seek instruction in these subjects. As a result of this interest, plus the survey findings, the company has installed many different programs during the past two years. These range from large group programs including all members of management to tailor-made plans for individual self-development.

A unique feature of the management development program is that participation is entirely *voluntary*. This may be one reason why there has been such a high level of interest in self-development programs. Encouraging this desire for improvement on the part of its supervisors, SKF offers them such services as psychological testing, counseling, merit appraisals, guidance, and experience interviews with immediate superiors. These activities indicate what the men need in the way of specialized training both within and outside the company to increase their ability to think, to broaden their experience, and to develop themselves for promotion.

Realizing the importance of continually stimulating its teams and of feeding its members fresh ideas, the company sends all supervision the SKF monthly management newsletter and a copyright weekly management bulletin. Slides, movies, and schedules of recommended library reading matter are also presented regularly.

Though it is too early to determine the results of the plan fully, for two years there has been a continual improvement in individual proficiency and

over-all teamwork. On this basis, it seems reasonable to believe that over a five-year period, the program will pay off in developing a strong organization that will function to the full satisfaction of employees, management, stockholders, and customers, and thereby contribute to the strength and stability of our national industrial economy as a whole.

—By HARRY F. GRACEY. *American Machinist,* August 25, 1949, p. 71:5.

Giving Alcoholics a Break

WHAT should we do about employees who drink too much? For a long time, management had a quick, uncompromising answer: If they won't mend their ways after a warning, fire them and get workers who will stay reasonably sober. But that attitude began to change during the war when it was hard to find experienced replacements. Though the manpower situation has eased up since then, the changed attitude still holds.

The American Association of Industrial Physicians & Surgeons heard reports recently on some of the methods worked out by major employers. These reflect a trend to a more scientific and sympathetic handling of the alcoholism problem.

Consolidated Edison Company, in New York, is an extreme example of industry's new outlook. If ordinary treatment doesn't help the chronic or psychopathic alcoholic, the company retires him on a pension in keeping with his pay and length of service—just as it retires workers afflicted with tuberculosis and other disabling diseases. The policy, put into effect quietly in early 1947, is recognition, says the company, that "alcoholism is due to a definite pathological condition." It applies only to workers on the payroll more than two years.

Few firms go to the length that Con-Ed does. But many employers, including the Eastman Kodak Company and E. I. du Pont de Nemours & Co., are profiting by cooperation with Alcoholics Anonymous, an organization of former alcoholics that encourages drinkers to quit.

In part, the changed attitude stems from increased research into a long-neglected problem. Last year, the Chicago Committee on Alcoholism jolted many management men with its report on the cost of excessive drinking. It pointed out that three of every 100 industrial workers are alcoholics: They're away from their jobs on an average of 22 days a year as a result of excessive drinking. The lost man-days cost industry about $1 billion a year—without counting the financial cost of lost efficiency on days they have hangovers, and of the accidents that result from fogged judgment or jitters.

Du Pont first recognized alcoholism as an industrial health problem in 1943. It turned to Alcoholics Anonymous for help. Since then, it has rehabilitated about 500 persons—including many non-employees in plant communities—through A.A. units at 20 plants.

Here's the way the company puts its policy now:

> No man should be fired just because he is an alcoholic. If an alcoholic wants to stop drinking, he should be given a real chance. He can be helped, and he is worth helping. When an alcoholic stops drinking, he is a somebody. He is a man of character and intelligence.

Companies which are handling alcoholism primarily through medical departments are following a policy the Keeley Institute has been advocating for years: Treat alcoholic employees as sick people; give them the same consideration you give those who suffer from other diseases.

These companies: (1) Give medical attention to an employee who is frequently absent; (2) have a competent personnel officer—often a former member of A.A.—analyze the case if alcohol is a factor; (3) treat the case as a disease, not a moral lapse, and hospitalize the case if necessary. Often, introduction to A.A. is a final step in this program.

—*Business Week 4/23/49*

Give to Conquer Cancer!

Some Effects of Taft-Hartley

THE Taft-Hartley Act has been law for two years. Though in a few instances provisions of the Act need further clarification by the courts, it is possible at this time to get some idea of the effects the law has had to date upon our industrial relations. These effects have been investigated in a recent study by the Institute of Labor and Industrial Relations of the University of Illinois.*

Results of the study show that, contrary to popular opinion, the closed shop still exists legally in the United States under the Taft-Hartley Act. This is true in situations where long-term contracts were signed prior to passage of the Act and where negotiations have been forced "underground" and extra-legal agreements made.

The effect of the Act upon management, the study indicated, is less easily discernible than upon organized labor, and a go-slow approach has been urged by various management spokesmen. Some unions have been compelled to give up certain activities—the secondary boycott and various moves to support closed shop demands—that were considered normal procedure before the Taft-Hartley Act became law. Inter-union rivalry has been intensified in some cases. Union membership appears not to have declined, but some evidence indicates that as a result of employers' activities union organizing has not proceeded at the same pace as under the Wagner Act.

Definite conclusions cannot be reached on the Act's effect upon strikes. In some strikes, issues have been involved arising out of the Act's provisions. The national emergency provisions of the Act have not eliminated strikes in industries affecting national health and safety; however, such strikes have been delayed.

Changes in contract provisions have been made to bring agreements into conformity with the Act. In some cases, agreements have been reached between employers and unions which appear to circumvent provisions of the law.

Cases arising out of provisions of the new law have been a major concern of the National Labor Relations Board. Due to the nature of the charges, the Board has acted upon a greater percentage of charges against unions than against employers. Almost all the injunctions sought by the Board have been against unions. The role of government in labor relations has been considerably enlarged, and labor disputes have increasingly become a major concern of the courts.

Conclusions as to the effects of the Act should be regarded as tentative, inasmuch as the Act has been in operation only a short time. As one authority points out, "The law has operated only in a period of high employment—hence the experience under it has limited significance."

* *Some Effects of the Taft-Hartley Act.* **By Dale E. Good. Institute of Labor and Industrial Relations, University of Illinois, Urbana, Ill., 1949. 28 pages. Gratis.**

● INDUSTRY can give the government cards and spades in the matter of efficient personnel administration. A tidbit from the Hoover Commission Report shows that to recruit, test, and place one person on the federal payroll costs $70 per employee. In industry the recruiting, testing, and placement costs average less than $25 per worker.

—Lawrence Stessin in *Mill & Factory* 9/49

Where Personnel Departments Fail

IN recent months a number of companies have sharply reduced personnel department budgets. At least one economy-minded firm has eliminated its personnel department outright and turned over its functions to another office.

This management inclination to pare down personnel expenditures when economy is uppermost probably means one of two things. Either management fails to appreciate that a personnel department's real purpose—in good times and bad—is to handle employees with the greatest economy, or the personnel department, through slipshod performance, is failing in its job.

Today an efficient personnel department is more essential than ever. The average small plant, for example, loses from $50 to $500 (even more in the case of highly skilled employees) every time a factory worker quits or is fired. Intelligent personnel handling can hold such losses to an absolute minimum.

The question therefore arises: How can a business manager determine whether his personnel department is functioning efficiently? It is difficult to assess the efficiency of a particular personnel department, since it handles people, not goods which carry price tags and profit margins. There are, however, a number of observable faults which are common to many personnel departments. Discussed below are five failings found to be most prevalent in a study recently conducted by Robert N. McMurry and Company of the personnel departments of more than 100 companies.

One of the most obvious failings in personnel handling involves poor selection and placement.

Selection is an area in which three-fourths of the companies surveyed were weak. Few made use of preliminary screenings to eliminate at the outset applicants who were clearly without qualifications. Much time was therefore wasted in testing and interviewing persons who had no chance of employment whatever.

Many personnel departments fall down badly in the use of placement tests. Several tend to use tests as if they were unerring selection devices.

There are no less than 25,000 "tests" on the market; you can pick the titles that sound most appealing. Some personnel directors do exactly this. There is, for example, a "Dexterity Test," and many personnel directors have assumed that it measures dexterity and nothing else. Instead, some dexterity tests also measure space perception, which may have nothing to do with the job for which the test is used. The value of any test lies in the extent to which it indicates one's ability to carry out the specific responsibilities of the job he is seeking.

Many personnel departments have an inadequate system for checking references and previous employers.

Almost every department has some system for checking the information that appears on an applicant's work record, but few systems utilize this information intelligently. One personnel department discovered—too late—that a new employee who promptly got into trouble had neglected to report that he had pilfered $190 from the petty cash fund on his old job. His explanation for leaving the former job was that the "future was poor"—scarcely a misstatement when one stops to analyze it!

An efficient personnel department is seldom caught napping by such obvi-

ous untruths, nor is it unable to discover more subtle facts about prospective employees: their work habits, their relations with fellow workers, their attitude toward supervision. A great deal regarding these important employment considerations can be learned by checking previous employers. Personnel departments which do more than accept the candidate's own statement of qualifications invariably have a far lower quota of malcontents.

Many companies suffer serious losses because new workers are not given adequate indoctrination and training.

More than 75 per cent of the personnel departments which were studied suffered from this costly weakness. In the great majority of firms little or no effort is made to acquaint the newcomer with the company's history, the nature of its products, the services rendered to employees, or their opportunities for the future. Even less common is an induction program designed to acquaint new workers with supervisors and associates and to help them adjust to new jobs.

The period during which a new employee is expected to learn his job and reach average efficiency usually varies from a week to three months, depending upon the complexity of his job. In most companies, however, new employees take much longer to adjust and production lags. The reason is obvious: The personnel department feels no obligation to follow the progress of a new man, considering him to be the operating department's responsibility once he has been added to the payroll. In firms where the personnel department does take this responsibility, however, new workers reach average or above-average efficiency in a surprisingly shorter time.

Few personnel departments have acted to correct inequities in compensation and failures in wage and salary adjustment.

The war unbalanced compensation scales in many plants. The scarcity of some types of employees raised their wages to unusually high levels. Few personnel departments, however, have undertaken to correlate current wages with the proficiency required in particular jobs. The result is that war-born inequalities still exist.

In one company where the personnel department conducted a careful evaluation of 236 jobs, as many as 127 wage inequalities were found. In some cases, men doing work requiring almost identical skills had wage variations of 10 to 50 per cent. The result is ill will, friction, and lowered productivity.

Communication channels between workers and top management are still far from adequate in most companies.

The idea of "upward communication"—from worker to management—has made considerable progress, in theory at least. Many personnel departments have instituted employee interviews and conferences, but it often turns out that personnel officers do not know what to do with the information thus collected. Very few have any systematic plan for transmitting complaints and problems to the management level where something can really be done about them.

The upshot is that too often the machinery for interviewing employees is present, but the usefulness of the apparatus has so diminished as to be not worth the expense. Counseling employees intelligently requires skills and training which many personnel people simply do not possess. Those who do possess them can, however, turn employee interviews to real benefit, both to the worker and to the company.

The technique of polling employees to determine employee morale, sentiment with regard to working conditions, and the like has become an invaluable tool in plants which have learned to use it properly. One com-

pany cut production costs 16 per cent on the basis of information gathered in one employee poll. Another company reorganized its method of paying bonuses and incentives, with the result that sales volume jumped 26 per cent. Unfortunately, only one firm out of seven studied had awakened to the potentialities of the poll as an instrument for probing employee opinions.

Today every company operation is under top management's close scrutiny. Wasted effort and shabby workmanship are as inexcusable, and often fully as costly, in the personnel department as in any other department of a company. It is probably true that the sources of inefficiency are more difficult to identify in personnel work than in most other industrial operations. They can, however, be uncovered by a comparatively simple study. Knowing the most common faults is the first step toward checking for them and taking corrective action.

—By Robert F. Browne. *Commerce,* June, 1949, p. 18:5.

Workers' Likes Reveal Gripes

By PLAYING a "Why I Like My Job" contest in reverse, General Motors Corporation has dropped an atomic bomb in employee relations. What GM has actually done is find out what workers don't like about their jobs.

The technique that GM used to find this out—and to break the data down by divisions and plants—has psychologists agog. The firm put the 175,000 letters it received in its 1947 contest to interesting use: In adding up the answers to "Why I Like My Job," GM worked on the theory that the things left out or touched on lightly are things that may need fixing.

The 175,000 letters produced some 1,250,000 individual reasons why the writers like their jobs, an average of about 7½ reasons per letter. Every one of these reasons has been classified in 58 fairly specific categories. All letters were analyzed and broken down into these categories, then transferred to International Business Machines punched cards—along with various data about the employee, such as sex, age, length of service, and job. By running the cards through I.B.M. machines, any classification can be automatically sorted out. To date, volumes and volumes of conclusions have been worked out.

Liking the boss is way out ahead of all other reasons GM people gave for liking their jobs. It got a mention from nearly 48 per cent of the entrants. Next came, in order: (1) the workers' associates; (2) wages; (3) the character of the work; and (4) pride in the company. Down toward the bottom were such reasons as: (1) the success achieved by the employee; (2) the parties and open houses sponsored by the management; (3) pride in building a good product.

As the basic results were completed, statisticians applied formulas to find a middle ground for each reason. This established a statistical mean for the corporation as a whole. Divisions which rated higher than the corporation average in any category were asked how they did it. Divisions rating lower were also asked to explain.

In some instances, a division's bottom rating became a spur. Good hospital facilities accounted for a small but respectable percentage of the like-my-job reasons. One manager, whose division was placed in the cellar, puzzled for a while, came up with this reply:

> We always took the attitude that our medical facilities were strictly for handling accidents, nothing more. But if all GM employees think as highly of hospital facilities as the study shows . . . we'd better get busy.

So his division's hospital facilities were immediately marked for expansion.

The implications in the studies being made have led to several industrial relations programs within the corporation. It was established fairly clearly that workers liked to get information about their jobs, their environment, and the world in general. One result: the creation of employee information racks from which workers can help themselves to pamphlets and booklets.

The conclusions reached through the study are having, and will have, a broad effect in shaping GM employee relations policies.

—*Business Week* 4/30/49

An Analysis of Employee Handbook Printing Practices

TODAY the importance of free and lucid two-way communication between management and employees is getting increasing recognition from forward-looking managers. Much thought and discussion have been devoted to the function of communication in industrial relations. The mechanics of communication — the how-to-do-it aspect — has largely been neglected, however.

A recent study of one of management's most important communication devices—the employee handbook—gave indications of this. Thirty-six employee handbooks, produced by well-known companies throughout the United States, were selected for analysis from the files of the University of Minnesota's Industrial Relations Center, and evaluated by means of typographical criteria for promoting maximum readability.

There is a considerable body of research information regarding optimal printing arrangements. It would appear reasonable to assume that recommended typographical arrangements could be utilized in the construction of employee handbooks to promote ease and speed in reading them.

Only one of the handbooks studied used a non-optimal style of book type face; however, only nine books used preferred type faces, i.e., Bodoni, Caslon, Old Style, and Garamond. Antique and Cheltenham faces, which were strongly recommended, were not used at all. In another study, Excelsior, Paragon, and Ideal newspaper type faces were reported to be read significantly faster than any of seven most frequently used type faces. One handbook used Excelsior, and no handbook used the other two faces.

With respect to handbook headings, 16 handbooks employed all capitals, nine all lower case, and 11 a combination of both.

With respect to the titles on the handbook covers, 20 used all caps, 10 all lower case, and six a combination.

When both handbook headings and covers were considered, 10 manuals used all caps, four all lower case, and 22 a combination of both. In general the handbooks used italics and bold face judiciously.

Twenty-three of the 36 handbooks used the recommended 10-, 11-, or 12-point type sizes. Only four employed 11-point, the size preferred by most readers. One used larger than 12-point, and 12 used smaller than 10-point type.

It was possible to study 34 handbooks for prescribed "safety zones" for leading, line width, and type size. Only one of the handbooks used an arrangement which was not within the recommended safety zones.

Only 17 of the handbooks could be appraised with respect to minimal and optimal line widths. Sixteen were within the limits and one outside the upper limits.

Recommended margins for the printed page were one-quarter inch for top, bottom, and outer margins, and three-quarter inch for inner margins. Here the standards were set in terms of speed of reading, and economy of paper stock. The handbooks deviated significantly from these recommendations. No handbook met the requirements for all four margins; two handbooks met the requirements for top and bottom margins; and one handbook met the requirement for inner margins.

All the handbooks utilized the stand-

ard of dark print on light background for text material.

Twenty-three of the handbooks employed glossy finish paper stock despite the fact that dull finish is generally preferred.

Typographical variation was employed sometimes by the handbook editors at the expense of legibility, speed of reading, and expressed reader preferences. Attention might well be directed in future revisions of these manuals to use of typographical variations within the recommended limits of optimal printing arrangements.

In general, editors of employee handbooks in their attempts to prepare attractive and effective manuals have often proceeded without awareness of optimal printing arrangements. In such cases, they might well revise their booklets in accordance with the body of research data now available concerning printing.

—By Lenore P. Nelson. From *Employee Handbook Printing Practices* (Research and Technical Report 3), Industrial Relations Center, University of Minnesota, Minneapolis 14, Minn., 1949. 27 pages. $1.00.

Two-Stage Incentive Plan

A COMBINATION of two different types of incentive pay schemes into a single, integrated plan has raised efficiency at Zenith Radio Corp. from 20 to 60 per cent above former levels and has made it possible for the majority of employees to earn premiums 5 to 30 per cent of base rates.

Zenith decided on a combination of what seemed the best features of a "standard hour" plan embodying both straight-premium and shared-premium payment at different levels of output. The incentive plan starts sharing "standard hour incentive" premium at 82 per cent efficiency on a 50-50 basis up to 118 per cent of efficiency. When a worker reaches 100 per cent performance (18 points above incentive base), he is paid a premium of 9 per cent of base wages. For the next 18 points (to 118 per cent) he is paid an additional 9 per cent, or a total premium payment of 18 per cent. At this point and above, he gets 100 per cent premium—exactly the same as he would under a standard hour plan with a straight 100 per cent premium.

Combination plan has two advantages not generally obtainable: First, by starting premium pay at 82 per cent efficiency, it provides real stimulus for the employee who might feel it not worth while to reach 100 per cent in order to start earning bonus. Second, by changing premium from ½-for-1 to 1-for-1 at 118 per cent, there is an added stimulus to earn twice as big a premium for all additional effort.

Wherever possible, workers are on individual incentive. Otherwise, premiums can be calculated on the same base but are determined by group performance, with special allowances made for losses resulting from inclusion of inexperienced help. In all cases safeguards are provided against lost time or delays beyond the employee's control. Once set, standards are guaranteed, except in the event of the introduction of an improved method to lower costs.

—*Factory Management and Maintenance* 4/49

● "WHO DO YOU THINK are the most selfish interests today—the business men, the labor unions, the farmers, the government officials or any other group?" In reply to this query made recently in a Psychological Corporation survey of people in 138 cities from coast to coast, labor unions were named as the most selfish interest by 42 per cent of all respondents, government officials by 19 per cent, business men by 17 per cent, and farmers by 4 per cent. The remainder said "all of them" or named other groups.

Production Management

How to Face Price Cuts

FEW companies today can ignore the problem of how to get prices down. Even industrial inventories, according to the National Association of Purchasing Agents, are showing "a pronounced declining trend of prices." Many manufacturers, however, are wondering what to do about the brick wall of high costs. Some tips on how to cut prices gracefully are supplied by hardheaded merchandise buyers for mail-order houses and department stores, whose only concern is keeping goods moving, and by firms that have already had to cut prices.

Re-examining profit margins, according to people on both the retailing and manufacturing sides of the fence, is step No. 1. Many who still delude themselves that high profits of the last seven years are "normal" are now faced with either production cutbacks or distress merchandise.

Where not enough can be squeezed from profits, production and distribution efficiencies are good insurance for getting prices down. Companies are working intensively to slice fatty waste off the old cost-plus methods.

Substitute materials, packaging, materials handling, labor overtime, salesmen's expenses, low-profit orders, poor sales territories, waste advertising and promotion—anything that contributes a penny to the cost of the product is getting a caustic once-over.

For example, at Electromode Corporation, Rochester, N. Y., greater volume of postwar business in electric heaters permitted retooling and purchasing materials and parts in quantity. In addition, some jobs formerly done by hand were converted to mechanized tooling. Result: A 20 per cent retail price cut, from $30.98 to $24.95, on portable home heaters, which placed Electromode in a better position to compete with newcomers in the heater field.

Standardization of products is another means of getting costs—and prices—down. Here companies like Nelson Stud Welding Division (Morton-Gregory Corp.), Lorain, Ohio, are stressing standardized sizes and types to bring savings to their customers. A six-month marketing and production survey showed that 70 per cent of its business was for 60 of its more than 2,000 types of flux-filled studs. By concentrating on these few types, Nelson was recently able to announce a 5 per cent reduction and six-day delivery on the 60 top sellers. The company will continue to make the other types and sizes at prices "reflecting increased costs" and at prevailing six-to-eight-week deliveries.

Going standardization one better, stripping the frills off products is placing some companies in the popular-priced field. Be it a "stripped," "simplified," or just plain smaller version of standard merchandise, low-cost, good-quality products attract customers.

In almost all attempts to get prices down, the manufacturer has the important problem of protecting his immediate customers—whether they be dealers, distributors, or retailers. Painful object lessons could be cited of

companies which hit their dealers with price cuts without sufficient notice in advance, and no provision for cutting their inventory losses on old stock.

Electromode succeeded in getting a price cut across with no danger to dealers, and at the same time actually boosted sales. Here's how its "equalization" plan worked when two models were reduced in price from $30.98 to $24.95: First, factory representatives and jobbers were informed of the cut. Accompanying the announcement was a clear program for protecting middleman inventories which had been bought at the old, higher price. Under the plan, jobbers were instructed to fill out inventory sheets showing the number of heaters in stock. If they were willing to order at least 50 heaters at the new, lower price, they received sufficient credit to bring the out-of-pocket cost of the heaters already in stock down to the new figure. Thus, in one operation, all the jobber's inventory was painlessly reduced to the new price, the jobber could pass the plan on to his customers, and the company jumped sales.

The whole equalization program cost Electromode less than the company had anticipated, cost its dealers and jobbers nothing—least of all, bad feeling.

Dealers and retailers want, need—and expect—more than protection from manufacturers. They want cooperation in moving merchandise.

In a recent survey by National Retail Dry Goods Association, the overwhelming majority of stores report that ads next year will be light on institutional copy and heavy on bargain-basement offers. Stores will cut out ads on slow sellers, promote best sellers, time promotions strategically, offer more informative copy. And they're keeping a sharp eye on what manufacturers plan to offer in cooperative promotion.

Here are some of the price-and-promotion aids manufacturers are giving:

1. Trade-ins. Advantage of the trade-in offer over an out-and-out price reduction (traded appliances will be used only as scrap) is that the company can retain the original price, and withdraw the trade-in offer at a specified time. Customers who have recently bought at the higher price are less likely to resent price cuts. Proctor Electric Co., Philadelphia, handled its trade-in offer this way: When a post-Christmas slump in sales set in, the company was reluctant to accept production cutbacks. So it footed the bill for a $2 trade-in on its $12.95 iron, and a $3 trade-in on its $18.95 toaster.

2. Premiums. Reappearance of premiums, probably the oldest sales shot in the arm, marks the end of the sellers' market era. Premiums offer the manufacturer a good opportunity to do a promotion job with the stores. Premium offers can be ballyhooed in cooperative ads with stores, in national ads, by direct mail. Premiums also have the advantage over outright price cuts of lasting a limited time only, and retaining newly won customers after premiums are withdrawn.

3. Two-for-one sales. Another old stand-by making its comeback in merchandising, the two-for-one sale beats the half-price deal in that it does not associate the product with the lower price. Most companies trying the two-for-one offer package them specially to prevent dealers from stocking up on huge quantities at the low sale price.

4. Release distress merchandise. The time is here again when a manufacturer looks over his unsold inventory with misery in his eyes. Usually his solution is to sell at a loss to cover current overhead and hope for the best

next month. Retailers are coming once again to depend on this distress merchandise to stimulate store traffic. "Special sale," "manufacturer's close-out," etc., are familiar phrases in newspaper ads. The possibility of being committed to lower prices—particularly where a Fair Trade price is involved—makes distress merchandise dangerous. However, there is always the device of the "anonymous" manufacturer—where the product is sold without a label—that can be used for special sales.

As company after company passes through the doors to real competition, there's no doubt that all the old tricks and a lot of new ones will be uncovered.

Actually, nothing particularly disturbing is happening. The cost of living, according to the Bureau of Labor Statistics, is going down—but it's not catapulting. This is just the "normal" supply-and-demand situation everyone talked about for years.

—*Modern Industry,* March 15, 1949, p. 54:7.

Waste Reduction Campaign Hits Million-Dollar Jackpot

TOTAL savings of $997,000 per year at a total cost of $104,290 is an impressive record.

Such savings were achieved by the Goodyear Tire & Rubber Company, Akron, Ohio, in a single five-week whirlwind waste reduction campaign. These results were accomplished by using the company's suggestion program as the springboard for a plan that was designed to enlist the cooperation and interest of all employees.

Key point in the plan was modification of the suggestion program for the period of the campaign into a suggestion contest, with valuable merchandise prizes for winners, in addition to cash awards up to $1,500.

In line with this, special suggestion blanks were printed highlighting the campaign theme, "Whip Waste and Win," and local waste reduction committees in every plant took over the functions of the regular suggestion committees.

An extensive campaign was built around a monstrosity created to add interest to the program—a villainous looking hunchback named Weasel Waste. The Weasel appeared on publicity and advertising posters, banners, envelope stuffers, and buttons. He became the holder for the suggestion contest blanks, life size cut-outs being used for this purpose. Finally, he was even brought to life. An employee was detached from regular duty and assigned to masquerade as the Weasel in a grotesque crimson costume and green greasepaint. He roamed through all plants and offices on every shift, criticizing good work and heartily praising any waste that he observed. These Weasel Waste visits injected the necessary element of excitement and interest into the whole program and contributed greatly to its success.

The result of all these activities was that more suggestions were received during the five-week campaign than the company normally receives in a full year.

One of the major contributions of the campaign was the development of a plan to derive fullest possible benefit from all suggestions accepted then and in the future. This has been done by setting up a master reference book of accepted suggestions which serves as an up-to-date follow-up guide. Each time a suggestion is accepted, it is checked against ideas in this book and analyzed to determine its possible usefulness in any other plant or division of the company. In this way company-wide application of good ideas will be guaranteed rather than a matter of chance.

—E. W. Hamlin in *Factory Management and Maintenance* 5/49

A Study of Factory Chairs

By HAROLD R. NISSLEY*

A TWO-YEAR study of factory chairs involving leading chair manufacturers and a score of using plants yields a number of interesting conclusions gained from interviewing plant managers, foremen, and operators:

1. The factory chair problem has been accentuated since 1940, when many plants went on (and remained on) multiple-shift operation with two or more operators occupying the same chair. As a result, foremen, master mechanics, and operators themselves have spent (and are still spending) valuable production time in adjusting chairs.

2. The so-called posture chairs are mere approaches to perfect posture chairs.

3. Most factory chairs are built and engineered properly from a maintenance angle; but even here, there are a few glaring exceptions.

4. Half the factory chairs now on the market could achieve a 90 per cent rating while adding less than 50 per cent to the price of the chair.

5. Within the $10 to $20 chair range, there is no commercially available chair at present that we know of that meets all significant on-the-job requirements. One chair in the $20-$30 class comes close, but even this one has three defects.

With the foregoing defects in mind, the writer conducted a study to find out just what was needed in factory chairs. The study consisted of a questionnaire survey of 100 foremen in 20 factories having a large number of diversified jobs and subsequent discussion with a number of these foremen. Presented below are the characteristics which this study revealed to be important in factory chairs:

1. *Quickly adjustable height chair (without tools).* This relieves the foremen, especially in shops employing female operators, of the necessity of making height adjustments when operators were changed from one job to another or at shift time. More than once the writer has seen an entire group of operators sitting idly by while one operator was having her chair adjusted.[1]

2. *Horizontal (and vertical) back-rest adjustment.* Most factory "posture chairs" have no lateral back-rest adjustments. The result is the operator either gets no support at the back (if his legs are short) or is compelled to sit near the edge of his seat (if his legs are long). There are, of course, mechanical and cost considerations for such a fixed-position back rest. But without such an adjustment, much of the "posture" feature of the chair is lost.

3. *Form-fitting (tractor or bucket) seats.* These are practically non-existent on any factory chair now on the market. To be sure, a few manufacturers curve their chair seats, particularly at the front; but to equalize the pressure on all parts of the buttocks, the seat must conform to the shape of the buttocks; if it does not, the but-

[1] Several standard chairs are supposed to be easily adjusted height-wise. An inspection of most of these chairs disclosed: (a) they were not safe; and/or (b) moving parts would stick (rust or swell); and/or (c) holding pins would get lost; and/or (d) the height adjustment would be limited to 4 to 5 inches (thus limiting chair use to particular job types).

* Professional Engineer, Cleveland Heights, Ohio.

tocks must conform to the shape of the seat thus causing fatigue and restlessness.[2]

4. *Foot rest—preferably one easily adjusted to height.* Most factory chairs do not have foot rests as standard equipment. Where foot rests are optional, they generally are of a fixed-position type. Obviously, this type is better than none. But if this fixed position is more than one inch away from a person's natural leg-resting position, uneasiness and fatigue develop. Hence adjustable foot rests are not only desirable for maximum comfort, they are necessary if you wish to keep workers settled in one spot most of the day. Only two factory chair manufacturers, to the writer's knowledge, have adjustable foot rests; one of these as standard equipment and the other as optional.

5. *Light weight.* Most operators like a chair they can push around easily. A chair that is difficult to move may be erroneously characterized as "heavy." The writer's study disclosed that 30-pound chairs equipped with *hardened* glides (or casters) were about as easy to move as 15-pound chairs with soft steel glides or feet. Weight, therefore, is not as significant, except over a wide range, as chair feet characteristics. Only one chair manufacturer provides hardened chair feet for his chair—and these at extra cost.

6. *Combination swivel and non-swivel chair.* Two-thirds of the foremen interviewed voted against swivel chairs for most of the jobs under their direction because of: (a) their lack of steadiness, particularly where bench or machine foot pedals are involved; and (b) the accident hazard of swivel chairs. Most foremen agreed, however, that the ideal factory chair would be one which could be converted at the operator's will from a swivel to a non-swivel without any sacrifice in safety. Thus differences in opinion of the merits of the two chairs between foremen and operators would be avoided.

7. *Small radius back rest.* Every standard back rest tested was found to be only one-third effective; in other words, the outer thirds of the back rest exerted little or no supporting pressure on the back. The radii of conventional back rests ranged from 12 to 14 inches. An old back rest having a radius of 9 inches was found to be ideal for both heavy and light people; this smaller radius back rest gave back support across the entire span of the rest (even many of the factory chair manufacturing people agreed to this point after testing the smaller radius back).

The following are some verbatim comments of the foremen:

> We have six new__________chairs adjustable for height, swivel, but non-locking. If we could combine a locking device to above features we could maintain a specific setting, especially for height, and would have an ideal chair for our bindery use.

> There are no good chairs on hand. Majority are single post swivel, which are not satisfactory.

> __________chairs have an objectional adjustment. Ideal chair would be one in which height would be adjusted by means of lever or hand-jack, such as used on barber chairs.

> Would like to see quickly adjustable height on solid curved back rest.

> Chairs for__________machine should be light enough so that operators may lift them to platform and lower to floor when necessary. With the exception of

[2] The common objection of chair manufacturers to making a true form-fitting seat (bucket or tractor style) was that different sized people would require different sized seats. A factory test (involving 150 operators ranging in weight from 90 to 205 pounds) of a regular tractor seat revealed no dissatisfaction with such a seat; and on high jobs (higher than 23 inches) all the operators preferred this metal bucket seat ahead of three other standard factory seats tested.

one or two part-time jobs, all work performed in the ________ Department is done in a standing position.

Have found ________ chair acceptable in general; it is easily adjustable and has a foot rest by which operator can control horizontal movement of chair. Built on metal frame with laminated wooden seats and back rests which is very durable.

The survey indicated certain inconsequential or negative chair characteristics:

1. *Color* was of small concern to both foremen and operators, though a medium grey was preferred to the conventional dark green and "dunkle" brown colors.

2. *Chair styles or lines* meant little to both foremen and operators. There was an initial negative reaction to the tractor seat until it was tried.

3. *Purse holder attachment* for women operators had far less appeal than originally believed. This may have been because most of the girls tested had drawer space at their benches where they could put personal effects.

4. *"Difficult to make chair adjustments"* was a common complaint by both foremen and operators when speaking of their old chairs (some of which were less than a year old).

5. *Chair casters* were frowned upon except in a few isolated cases where an operator had to move constantly from one machine to another (in most cases special tracks or other "safety guides" were provided). Although at least one chair manufacturer has come up with a non-tipping castered chair, there is no denying casters are more hazardous than glides or other non-rolling feet.

Does Palletizing Always Pay Off?

WITH better labor becoming more available and capital funds for investment in equipment becoming more difficult to obtain, a number of forward-looking executives are re-examining their materials-handling program. In one company, recently, a proposal for completely palletizing its distribution warehouse was given close analysis. The company had long prided itself on being up to date and modern, but the turnover of warehouse stock was generally low.

From a brief examination of alternate methods it became apparent that the old-fashioned hand methods were not only the cheapest but even permitted a better utilization of the warehouse. Inventory turnover was found to be the key to low-cost handling. For those inventory stocks produced on a once-a-year seasonal pattern, hand stacking was the most effective; for those that turned over several times a year, mechanical handling proved to be the best method.

Many other factors should be considered, of course. Should stock move out of inventory in quantities smaller than an economical pallet unit, the inventory turnover must be even greater for mechanical handling to pay off. In warehouses with low ceiling heights, the introduction of mechanical pallet-handling equipment and the consequent need for greater aisle space can reduce storage space. A careful analysis can be made, however, showing the balance between the cube utilization under hand stacking and palletizing methods. This is particularly important in warehouses carrying a wide number of items requiring access from aisles, for here the ratio of aisle to stock *square footage* can get as high as 3 to 2, and losses in cubic capacity may be extremely large if fork trucks are used in the conventional manner.

On the other hand, the type of shipment and the ability to use unit loads in shipment may increase the economy of mechanical handling to a point where even at low inventory turns it is a profitable investment. The need for rapid materials movement or the inability to obtain warehouse help to meet seasonal peaks are other valid reasons for adopting mechanical handling in the face of apparent higher costs.

—DOUGLAS WATSON in *Western Industry* 5/49

Machine Tool Rental Plan Aids Plant Modernization

AGGRESSIVE machine tool merchandising plans of two midwestern firms, based on the concept of rent with option to buy, have brought plenty of business, and the trade is following their progress with interest. Both are Chicago firms—DoALL Co., which sells contour saws and precision grinders, and Emerman Machinery Co., which sells new and used machines. Their plans are similar, though the contracts differ in minor details. DoALL's plan is a year old, Emerman's started about a month ago. The plans are legal, and one company has cleared the matter with the U. S. Treasury Department. In the past, such plans have not been inaugurated because investment houses have refused participation. In both present cases, the credit paper is carried by the companies themselves.

DoALL's plan consists of the sales price split evenly into 36 monthly payments. The renter pays each month in advance and must keep the machine for a year. If he wishes to buy, 75 per cent of all rental is applied against the original sale price. In effect, this is a program of accelerated depreciation. Current practice of writing off a machine in 10 years means that only 1/120th of the cost can be deducted each month. With rental and the option to buy, about 1/36th of the cost can be written off each month as a current expense, and this feature is proving a strong selling point. Approval of the U. S. Treasury has helped. So far DoALL officials indicate that the plan has worked well. All renters thus far have renewed their contracts after the first 12-month period, and indications are that most of them will eventually buy the tools.

Emerman's plan on used machinery is a little different in that there is no minimum time of contract and the renter can buy or return the machine at any time during the contract period.

Here's how the plan works. A company rented a precision lead screw tapper that had a list price of $4,500 in 1942. The present purchase price of this machine is $1,950. The monthly rental amounts to $54.16, which is the used machine price divided into 36 equal monthly payments. Again, as in the case of DoALL, the first month rental is paid in advance. The lessor loads the machine onto the truck or rail car and the lessee pays the freight to his plant. If the machine is returned and not eventually bought by the lessee, the lessee loads and ships the machine back at his expense.

Under both plans, the machine must be returned in its original condition less ordinary wear incident to normal use on the job. In the case of used machinery, the rental payment varies with use. The above figures were based on 8-hour-a-day use. For 16-hours-per-day use the user pays a 50 per cent increase in the monthly rental rate, and if the tool is run three shifts a day the normal 8-hour rental is doubled.

Chicago bankers told *The Iron Age* that such plans have been turned down in the past because: (1) banks don't know enough about this highly specialized industry; (2) there is no common yardstick that can be applied so that the risk can be calculated; (3) banks know of no indicator that insures them of a resale market of any consistency or one showing any historic pattern. A vice president of a prominent Chicago bank, however, suggested a plan whereby eventual financial help might be secured. This executive suggested that the machine tool industry form their own credit association, establish a board of experts to classify machines, give the bankers a workable yardstick, establish adequate appraisal methods, and then create a permanent market or place to go with used machines. On such a basis this banker believed that financial houses would be sincerely interested.

—D. I. Brown in *The Iron Age* 9/15/49

Marketing Management

Basic Steps in Planning Sales Training

A SALES training program which pays a maximum return goes through five basic steps as it is created. These steps apply whether the sales force is large or small—whether the training course involves an elaborate school for hundreds of men, or whether it is a 10-man sales force with each member being trained personally by the sales manager.

Step One: Decide *what benefits to the company* are sought through sales training.

In one way or another, the end result should be more net profit. In general this comes about through increased sales, reduced expenses, better net results—e.g., better inventory turnover; better balance of sales between items in the line; a better reservoir of men eligible for promotion; etc.

A clear-cut statement at the outset of the benefiits that sales training is expected to produce saves considerable lost motion in setting up the program. The number of immediate objectives, however, should be small—one or perhaps two. All others should be tagged as secondary or future objectives. Much better results normally will be attained if the objectives are over-simplified than if the training program starts out to cure overnight all the ills of the company.

Step Two: Decide *where* training is most needed.

The simplest distribution chain is composed of three links: the home office, the salesmen, and the customer or user.

The immediate question to be answered is: Which is the least effective link in the company's distribution chain? If there is more than one weak link, they should be numbered in the order of importance.

Many training courses have been set up to train company salesmen though they already were the strongest link in the chain—stronger than the home office. Thus whoever designates the weak links in the chain of any company must be able and willing figuratively to search his own soul first, and must have the benefit of extensive and recent field contacts.

Step Three: Decide *what kind* of training is needed for the weakest link.

Following are some of the basic sales training subjects for each level of operation.

Consumers: How to Use the Product

Retail Salesmen: Personal Salesmanship; Product Use and Application; Product Repair and Service

Dealers: Operating a Business; How to Advertise; How to Display; How to Hire, Train and Manage Retail Salesmen; Personal Salesmanship; Product Use and Application; Product Repair and Service

Distributor Salesmen (Wholesale): Product Use and Application; Product Repair and Service; How to Select Dealers; Personal Salesmanship; Retailing Your Product; Operating a Territory

Distributors (Wholesale): Operating a Wholesale Business; How to Hire, Train, and Manage Salesmen; Retailing Your Product; Product Use and Application; Product Repair and Service; Personal Salesmanship

Your Salesmen: Product Use and Application; Personal Salesmanship; Operating a Territory; Company Routines and Policies; How to Operate a Retail Business

Branch and Division Managers: How to Operate a Branch or Division; Company Routine and Policy; Sales Management; Operating a Wholesale Busi-

ness; Operating a Retail Business; Product Application and Service; Personal Salesmanship

Home Office Staff: Broad policy relating to subjects selected for other levels. Specific training on all activities in which the home office is the weak link.

Step Four: Search out and expose the present negative influences within the company that may nullify the program. For example:

Are there key men in the organization who will undermine the training program, either because they don't understand, or are just plain cantankerous?

Are your systems and methods ready? Is your selection procedure good enough to insure new men of adequate caliber for training?

If you train your men to be first-class salesmen, are you willing to pay them and treat them as such?

Are your product and market ready? Is your product good enough to make people want to learn to sell it?

The existence of one or more of such inhibiting conditions is not a *stop* sign. Instead, it is a warning to proceed with caution. Even under most inauspicious conditions the salesmen must have some training. The sales force can't stop functioning simply because the personnel needs an overhauling, or because the quality of the product has slipped. The show must go on and as long as it goes on, the men must be given every reasonable help to prevent a bad matter from becoming worse.

Step Five: Get the *most effective* answers to the problems the salesmen have to meet. This is a two-part step: (1) Find out what problems the salesmen have to meet. (2) Get the answers to those problems.

For example, let's assume you manufacture an industrial product. You have decided to teach personal salesmanship to your own men first, later perhaps to distributor salesmen. The following is an outline of some of the questions the salesmen will want answered in the course:

Where do I go? How do I build my prospect list? How do I estimate the potential volume from a given plant, a town, my whole territory? Can I sell everyone in my territory? Why not? How often should I call on a $100 customer. A $1,000 customer? A $10,000 customer?

How should I plan my route to make the most calls with the least travel?

Whom should I see? Should I see the purchasing agent, a buyer, the plant engineer, the design engineer, the president? Who else? Why?

What do I say? How do I get in to see these men? What do I say when I first go in? How do I build up my sales story? What do I say to close the order?

What do I do? Do I run tests? Make surveys? How, when, where? How do I handle complaints of various kinds and adjustments?

What do I do about entertaining?

The answers to these questions as well as the addition of other important questions lie in the practices of the salesmen. The home office can originate technical and market research data, but beyond that the only trustworthy answers are those obtained from the field.

In the sales of every product there are a few men who do some one thing superlatively well. Other men do other things well. A good training course takes account of all these successful techniques. The problem is to get this information from the men, to winnow it, to sort the gold from the dross, and to pass the gold back to them in believable, usable form. It's a big job—but well worth doing.

—By B. K. Moffitt. *Sales Management,* September 15, 1949, p. 46:4.

Helping Salesmen to Utilize Their Time Effectively

ALMOST 90 per cent of American businesses can step up the efficiency of their sales operation by adding material on time and territory control to their initial training programs for salesmen, according to a survey of more than 150 companies published recently by the Dartnell Corporation of Chicago.*

"Even though numerous time and motion studies have shown the largest part of the average salesman's day is spent in waiting, driving, and other non-selling tasks," says the report, "most companies are passing up a lot of opportunities to help their salesmen make the most effective use of their time."

Typical of companies cited in the study which have developed time-saving schemes that could be adapted to good advantage by executives in other lines are the following:

Panther Oil & Grease Manufacturing Company, Fort Worth, is encouraging its salesmen to drive straight through large towns, zigzagging across main highways to off-the-beaten-track towns where analyses of the company's records have shown sales prospects to be best.

The Cherry-Burrell Corporation, Chicago, uses an unusual system of building territories around the salesman and his contacts, largely ignoring geographical boundaries, in order to take full advantage of the personal acquaintance element.

On the basis of an extensive time and motion study of its own sales organization which showed the salesman's job to be made up of 153 separate tasks, Esso Standard Oil Company, New York, has initiated plans to relieve its representatives of as many other-than-selling jobs as possible, to place some men on special assignments, and to review all sales control forms with a view to simplifying paperwork.

The H. B. Fuller Company, Cincinnati, urges its salesmen to send advance cards before they make calls on key accounts, to keep calls short, to handle distant customers by telephone whenever possible, and to plan their calls to eliminate unnecessary driving.

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* Salesmen's Time Control (Report No. 580), The Dartnell Corporation, 4660 Ravenswood Ave., Chicago 40, Ill. Looseleaf, 47 pages of text, 37 pages of exhibits. $7.50.

Do Firms Hire College Drop-Outs as Salesmen?

WHAT opportunities exist in the specific field of selling for college drop-outs? To obtain an answer to this question, the authors, under the sponsorship of the University of Minnesota, Minneapolis, surveyed 98 firms—employing at least 50 persons—whose names were drawn from a listing maintained by the Minnesota Employment Service.

The survey indicates the following:

A college degree is not essential, nor necessarily preferred, in a selling career.

Some college training is helpful but not required for those men interested in selling careers.

A college drop-out will not be penalized in seeking a selling career unless his poor grades are due to personality deficiencies which would hinder him in becoming a successful salesman.

Few firms use psychological testing in selecting salesmen.

The majority of firms provide training programs, formal or informal, for newly hired salesmen.

A majority of the respondents felt that participation in social activities was important in the extra-curricular activities of college students who planned to enter selling careers. Retail selling firms emphasized also participation in student government and leadership activities.

—VIVIAN H. HEWER AND ELIZABETH A. KEATING in *Occupations: The Vocational Guidance Journal* 10/49

Status of the Advertising Manager

WHERE does the advertising manager fit in the sales department? To find out, Bostitch, Inc., surveyed a number of sales managers in firms with advertising appropriations ranging from $10,000 to over $7,000,000.

Sales managers were asked to what extent they participate in the planning and in the creative functions of their advertising. They were queried as to their own advertising qualifications, their training and experience. They were asked about the responsibility of their advertising manager and how much they value his judgment. The questions were sufficiently detailed to get factual information for comparative purposes and to avoid reflections of personal opinion.

The replies divide themselves mostly into three groups, directly related to the size of the advertising appropriation.

Of the concerns with smaller appropriations (up to $100,000) only 30 per cent have an advertising manager. Of the 70 per cent that have no such functionary, one-third retain an advertising agency. When they have an advertising manager, he is generally not directly responsible to the sales manager.

In such policy matters as developing advertising plans, preparing the budget, selecting media, and scheduling the advertisements, the sales manager in the group without ad managers has considerable voice. When there is an advertising manager, the sales manager may approve the plans, but he does not develop them.

As would be expected, where no advertising manager or agency is employed, the sales manager must do some creative work; but in none of the cases reported does he do much of it. Probably he calls on outside help — free lances, service printers, and sometimes space salesmen.

Few of the sales managers in this group have taken any advertising courses, though several have had two or three years' experience as advertising managers.

In the intermediate group ($100,000-$1,000,000) the sales manager has considerable to do with advertising plans but little or nothing to do with creative work. The recommendations of the advertising manager are usually approved.

As the appropriation gets larger ($1,000,000-$7,000,000), the participation of the sales manager in advertising planning diminishes, and the part he plays in creative work approaches the vanishing point. This is not surprising, since concerns of this magnitude have sizable and competent advertising staffs, and the manager's task is so demanding that he cannot find time to devote to advertising.

It is interesting to note that only 22 per cent of the sales managers reporting in this bracket have studied advertising, and of those who have not studied advertising 33 per cent have spent from 18 to 25 years in advertising work.

—SHERMAN L. SMITH in *Printers' Ink* 11/19/48

● COLOR IN ADVERTISING is increasing. Last year, according to the Magazine Advertising Bureau, about one of every three pages of advertising space in our leading magazines was in 4-color, with an additional 12.8 per cent in 2-color, making an over-all color percentage of 45.9 per cent. In 1939, by contrast, only 18.6 per cent of magazine advertising was in 4-color, 11.2 per cent in 2-color, and 70 per cent of the lineage was in black-and-white.

—Advertising Highlights

Increasing the Sales Unit

SHORT orders flourish when production exceeds demand, when the price tendency is down, when there's a lack of confidence in the business future. Now—as was the case 20 years ago—small orders are exerting a downward pull on net profits. Now, as then, dealers want to purchase only in quantities that fit their requirements.

In this situation smart sales managers must be alert to the need for training their own and distributors' sales staffs to sell dealers on the economy of buying in reasonable quantity. Sales management should also have a rigid policy of developing new customers only if they are profitable or if they represent a real potential, instead of selling to anyone and everyone in dribs and drabs merely to surpass the sales quota.

What should manufacturers do in the face of mounting small orders? They should strive to eradicate conditions breeding small orders. Here are some *don'ts* they can paste in their hats—if they will also bear in mind that circumstances alter cases and it is unwise to lay down hard-and-fast rules:

Don't sell in arid sales areas merely because they are in the salesman's line of travel. Eliminate poorly balanced calling schedules. Concentrate on larger trading areas—and on customers that salesmen can most profitably serve. Don't be influenced by competitors' tactics. Serve the field *your* way. Remember that manpower is your largest item of expense.

Don't fall for the volume myth. Volume isn't the principal gauge of a sales department's success unless net profit is evident. Don't welcome orders of any size, trusting that the general average will favor the profit side of the ledger. Refusing costly business may lower volume figures but at the same time raise the net profit.

Don't try only for trial or sample orders, and don't cater to exceptions. Great waste is involved. Large orders don't necessarily follow trial orders, which are usually so skimpy anyhow that the buyer really can't give the line a fair trial. As a result, he doesn't display it, advertise it, merchandise it.

Don't pamper customers with costly special services. Restrict pampering to your really profitable accounts. If special services are a nuisance, they will be handled as such and customer relations will suffer. If your salesmen don't like this policy, you may have to guard against let-down of morale. After a few weeks, however, they'll get used to it and will start seeing things your way.

Don't load your dealers to the limit. Some sales managers advocate this practice on the theory that dealers will be forced to concentrate on moving what they have the most of. This policy can backfire, however, killing dealers' good will. They will soon get "hep" to you.

Don't sell the discount—sell the line. And stress transportation costs saved when dealers order in reasonable quantities. Provide each salesman with shipping-weight, freight, express, parcel post and other costs. Set up a system of quantity differentials which show up the differences in cost of packages, transportation and all other expenses involved in handling orders of various sizes, with high prices for very small orders to stimulate larger orders and the maintenance of larger stocks.

Don't give dealers just what they ask for. Sell them on the idea of becoming brand builders, of stocking healthy inventories. A thoroughly sold buyer doesn't place small orders.

Don't encourage diversification of dealer lines where it means handling slow movers that reduce turnover. Greater volume doesn't mean greater turnover when increases are effected by adding new lines at the expense of other lines for which the demand is heavier. Remember, too, that assortment of sizes works against large stocks.

Don't encourage small-volume customers. These customers usually have poor credit ratings. Business failures among them are high and they are mostly responsible for the wholesaler's bad debt losses and high collection expense.

Don't judge accounts on the basis of figures alone. Some sales managers are of the opinion that average cost per call really doesn't mean anything—too much difference between dealers, between territories, and between salesmen.

Don't encourage dealers to buy direct from you when they buy in large lots. By the same token, don't advise them to go to your distributor when buying in small lots. Distributors' small-order habits are often traceable to the fact that their manufacturers sell direct to dealers. Manufacturers should beware, too, of distributors who encourage small orders to show how necessary they are in the distribution picture.

Don't let the dealer think he's overstocked when he orders the line in volume. Then you're not selling him properly and he won't really try to sell the line. Show him that he can always move salable quantities through big displays and real merchandising drive. A store cannot sell a product in satisfactory volume unless it has a displayable quantity. Your dealer can't sell what he hasn't got in stock.

Important as it is to correct dealer thinking, distributors, too, need some readjustment. Unless the jobber's function is to buy in large quantities and distribute in smaller quantities, his place in the scheme of distribution is questionable. If the manufacturer has to sell jobbers the same size lots that jobbers sell to dealers, he's justified in selling dealers direct.

At the same time, the manufacturer should provide some incentive for distributors to carry adequate stocks and furnish adequate customer service. Cooperate with your distributors to help dealers become better merchandisers. If you don't, you may lose out to more alert competitors. Another thing, if your salesmen call on wholesalers rather than direct to the trade, it may be possible to effect customer inventory and model stock programs. Manufacturers can send jobbers reports, too, on what they've shipped to dealers.

Finally, if the manufacturer frowns on small orders, the dealer frowns on the hand-to-mouth production that encourages him to restrict orders. The manufacturer should strive to have his plant operate on bulk production to increase efficiency and achieve lower prices. Never let it be said that he is the one responsible for the small-order thinking of his sales force.

—By Raymond H. Ganly. *Printers' Ink,* July 1, 1949, p. 26:6.

● IN 1940 there was one salesman to every 14 workers in other fields, says Walter C. Ayers, vice president of Brooke-Smith-French & Dorrence. In 1948 there was one salesman for every 28 workers in other lines. He says there should be at least 6,000,000 salesmen at present based on prewar buyers' market standards. That estimate tops the present sales personnel by 2,300,000.

—*The Employment Counselor* 9/49

A Survey of Industrial Ad Practices

INDUSTRIAL advertising budgets are climbing back to the 1939 level of 2 per cent of income, as compared with 1.9 per cent in 1948, according to the 1949 survey of industrial advertising budgets released last week by the National Industrial Advertisers Association.

The study shows that 79 per cent of industrial advertising budgets are prepared from September to December, inclusive, and that the peak period is October and November. Of the companies surveyed, 74 per cent said their budgets covered the calendar year.

In answer to the question, "How do you compute the size of your advertising budget?", 30 per cent replied that the amount is determined by the advertising needed to achieve predetermined sales objectives for individual products in specific markets.

Thirty-seven per cent replied that the amount is dictated by a company official, with varying consideration given to sales requirements, competitors' activities or wholesaler and dealer demands; 29 per cent reported the amount is revised, up or down, based on previous years' experience; 22 per cent reported their budgets are fixed on a percentage of sales volume, either net or gross; and 4 per cent reported their budgets are for a fixed amount in dollars and cents for each product unit manufactured.

On the question of how much is spent for various types of advertising, the report shows the following tabulation: 50 per cent for paid space, 29.8 per cent for product literature, 3 per cent for exhibits, 0.7 per cent for motion pictures, 2.8 per cent on display material and dealer service items, 0.9 per cent for novelties, 0.2 per cent for research, 4.9 per cent for publicity and public relations, and 7.5 per cent for administration.

Of 330 reporting companies, 93 per cent employ an advertising agency. Of these, 81 per cent reported that their agencies provide service on a standard 15 per cent basis. The three principal variations to this were listed as 15 per cent plus retainer or service fee, a guaranteed minimum against which 15 per cent on space is credited, and a contractor retainer fee.

The detailed report of the study is available in a bound volume at $15. It gives percentages spent on various types of advertising by product, grouped under the classification system used by the Bureau of the Census. A 14-page summary report is available at $2. Both may be obtained from: National Industrial Advertisers Association, 1776 Broadway, New York, N. Y.

—Advertising Age 11/7/49

Who Pays for Sales Promotion Materials?

DO MANUFACTURERS today foot the entire bill for sales promotion materials? Or do they charge dealers and/or distributors for such materials? A recent *Sales Management* check with 35 companies in a wide variety of industries shows a 50-50 division of opinion on policy. Among those who do charge for materials, such charges run from a minimum bill for imprinting to a full 100 per cent of cost.

Item most commonly charged for is direct mail. Displays are second. Only one company charges for advertising mats, one for contest materials, and two for advertising reprints. Under displays, the majority of companies charge for window, interior, and permanent displays.

Other findings: Armstrong Cork Company reports that it gives a certain quantity of folders and booklets free, then charges for any runs over this quantity.

Eaton Paper Corporation charges 50 per cent of cost for envelopes on imprinted paper promotions, does not charge at all for other types. For visual presentations to be used by salesmen in personal selling, Eaton charges part of the cost for items prepared for wholesalers only. On some items this company charges the full cost.

Yarn Division of James Lees & Sons Co. charges only for large units or "specials."

Tomlinson of High Point, Inc., charges only for imprinting of envelope enclosures, folders, and booklets. For windows, Tomlinson furnishes cards free and signs at cost.

—Sales Management 9/15/48

Financial Management

How Readable Are Corporate Annual Reports?

By SIROON PASHALIAN and WILLIAM J. E. CRISSY

BUSINESS enterprises are faced with the continuing problem of making the annual report more understandable and more widely read. Readership surveys show a considerable apathy to company reports. Yet, it is by no means an easy task to prepare an adequate report. The challenge is one of providing enough technical information on the year's operations, and presenting the material in such a way that the report will be read by its audience—stockholders, employees, and the public.

The new Flesch Readability Formulas are a statistical method of measuring the *ease* and *interest* with which a given writing may be read. The Reading Ease formula is based on the average sentence length in words and the average number of syllables. The Human Interest formula is based on the percentage of personal words and personal sentences.

Using these formulas, an analysis was made of the readability of the 1948 annual reports of those non-financial corporations listed in the Billion-Dollar Club, *Business Week*, June 11, 1949.* The results revealed that, on the whole, the general level of reading ease was *difficult* and the human interest value *dull*.

The range of Reading Ease scores was from 6 to 58. According to Flesch reference categories for these scores, the narratives vary within descriptive styles of *very difficult* and *fairly difficult*. The former is comparable to the material in scientific and professional journals; the latter, in the manner of literary and quality magazines such as *Harper's*. This range suggests a potential audience of from 4½ per cent of the adult population of the United States completing college educations, to 40 per cent of the population who have had some high school education. The average report, at a *difficult* level, is understandable by 24 per cent of the population who have graduated high school or have had some college training. The range of Human Interest scores was from 0 to 19; *dull* (scientific journals) to *mildly interesting* (trade magazines).

To illustrate the various levels of difficulty obtained utilizing the Flesch technique, sample passages from the corporate reports which ranked "most difficult," "typically difficult," and "least difficult" in Reading Ease are furnished below.

From the Union Pacific Railroad report:

Reading Ease: Rank 26
Human Interest: Rank 22

"At the annual meeting of Union Pacific Railroad Company stockholders held on May 11, 1948, the Articles of Association were amended so that on July 1, 1948, the total number of authorized shares of preferred and common stocks of the Company were doubled (with no increase in the total aggregate par value thereof), and the then outstanding 995,431 shares of $100 par value preferred stock became 1,990,862 shares of $50 par value preferred stock, and the

* A more detailed discussion of this report will appear in a forthcoming issue of the *Journal of Applied Psychology*.

then outstanding 2,222,910 shares of $100 par value common stock became 4,445,820 shares of $50 par value common stock, each of the new $50 par value preferred and common shares being entitled to one vote at any meeting of stockholders."

116 words
Average sentence length—116 words
Number syllables per 100 words—156
Personal references—0
Personal sentences—0

From the New York Central Railroad report:

Reading Ease: Rank 13
Human Interest: Rank 12

"Carrying forward our motive power modernization, the Central and leased lines, together with two affiliates, the Pittsburgh & Lake Erie and the Indiana Harbor Belt Railroads, ordered in 1948 new Diesel-electric locomotives at a total cost of approximately $33,600,000. The bulk of these locomotives, on which deliveries will extend into 1950, are for road freight and for switching service. The Central's portion was about $24,790,000.

"Locomotives delivered during 1948 increased the Dieselized portion of the total road freight train mileage of the Central and leased lines to approximately 13.5 per cent by the end of the year."

97 words
Average sentence length—24.25 words
Number syllables per 100 words—171
Personal references—1
Personal sentences—0

From the Swift and Company report:

Reading Ease: Rank 1
Human Interest: Rank 1

"The public rightly expects a business to accomplish certain desirable things.

"Who determines what is desirable in a free country? Not one man or a group of men. Each individual decides for himself whether he will buy from, sell to, work for, or invest in a company.

"A decision to buy a product is a vote in its favor. The votes of millions of people may cause prices to go up or down. The results quickly tell what the public thinks desirable.

"Such economic democracy can thrive only in a certain climate—one in which prices are free and competitive, and business is spurred by the hope of profits and the fear of losses."

114 words
Average sentence length—14.50 words
Number syllables per 100 words—152
Personal references—5
Personal sentences—1

On the basis of this analysis, the following suggestions are made for improving the readability of present styles of reports:

1. Use punctuational devices such as the semi-colon to shorten sentences.

2. Write the material at a less difficult level by the use of simple, less abstract words.

3. Employ more personal words, such as "I," "we," "our," and "us," which enlist the reader's interest and foster his identification with the company.

4. Direct greater attention to individual personalities of the organization.

5. Use personal sentences appropriately—sentences directly expressed to the reader, exclamations, questions, etc.

6. Minimize the number of figures presented in the text; they may probably be more effectively incorporated in tables and charts.

The Flesch technique thus demonstrates promise as a method for spotting the difficult language elements and "impersonalness" in such writing. Used with other types of practical hints in the literature, it can serve to strengthen the annual report as the most important single written communication between management and stockholders, employees, and the general public.

Accident Prevention and Financial Responsibility

INSURANCE has been called "the bulwark of financial stability," and its importance as a measure of the soundness of any business enterprise is well appreciated by credit men and successful management generally. Somewhat less well known is the relationship of accident prevention to insurance costs, to production costs, and to a healthy economy. There is a close connection between accident prevention and financial stability, which should be understood by those who extend and those who receive credit.

With a "recessive" business trend apparently well established, and with the expectation of narrower profit margins in most lines of business in the next few months, protection against financial loss from every foreseeable cause is more than ever essential. At the same time, management is increasingly faced with the problem of preventing waste and cutting unnecessary costs. It is the purpose of this article to discuss some of the ways in which accident prevention accomplishes both of these desirable ends.

Through the years, competitive effort by underwriters generally to make the cost of insurance as attractive as possible, consistent with sound underwriting principles and rate regulatory laws, has resulted in lower rate levels and greatly broadened protection in all casualty lines. However, since rates are based on ratios of losses to premiums, it is inevitable that many factors beyond the control of the companies—replacement costs, labor and material costs, social forces, to mention only a few—may affect loss costs favorably or adversely. In some casualty lines, loss experience tends to be better in prosperous times and poorer in recessions, so that, other things being equal, insureds may be subject to higher insurance costs at a time when they can least afford them.

This leaves accident prevention as a consistently dependable factor in reducing casualty insurance loss ratios. A study of rate trends will, in fact, show that, through good times and bad, the most substantial savings to insureds have been effected in those lines where loss prevention techniques have been most highly developed and most cooperatively put into practice through the joint efforts of insurers and insureds.

Insurance companies spend more money than any other agency on accident prevention—many millions of dollars are spent annually by casualty companies alone. In addition to their individual engineering staffs and laboratories, the companies have pooled their resources for greater concerted progress. The Association of Casualty and Surety Companies, for example, representing 68 leading capital stock casualty and surety companies, maintains an accident prevention department which is continually conducting research on the most efficient methods of controlling existing hazards and those that may develop in the future as the result of the use of new substances and compounds.

There is no better illustration of the tangible results obtainable by employer-insurance company cooperation in safety work than in the field of workmen's compensation insurance.

The entire history of workmen's compensation insurance since its in-

ception in this country has been one of declining accidents, lower costs to employers and increased benefits to workers. In 1913, industrial fatalities were occurring at the rate of 9.10 for every 10,000 workers employed. In 1917, 37 states had passed compensation laws; and the fatality rate in industry had dropped to 7.20 per 10,000. It has continued to drop ever since, and today is at an all-time low of 2.9 per 10,000 workers employed. Thanks to the efforts of safety-conscious management, casualty insurance companies and state and national safety organizations, the American worker today is almost twice as safe on the job as he is on the street, behind the wheel of an automobile, or even at home.

Unfortunately, this does not mean he is as safe as he could be. Accidents in all areas are far too many. Latest available figures on world accidents show 34 countries with lower accidental death rates than the United States, only three with higher rates. In 1948, 16,500 workers were killed on the job, and 1,950,000 were injured, at a cost of $2,600,000,000. This money might well have been put to more constructive use by American industry.

For it must be remembered, those accidents were not just bad luck. They were *caused,* and most of those causes could have been discovered and the accidents prevented. That is the job insurance engineers are trained to do—to survey the entire risk, to make a report to the employer on all unsafe conditions discovered, and then to help him to eliminate them and tell his personnel how to keep them eliminated.

This procedure accomplishes four things which contribute substantially to the financial stability of the business: It reduces the dollar cost of compensation premiums; it reduces the hidden costs that hamper production and which are always present when accidents occur; it improves employee morale and plant efficiency generally, and it cuts to a minimum the likelihood of losses other than compensation, including uninsured losses.

As an illustration of the premium savings possible, a comparison recently appeared of the compensation premiums paid by two companies of identical types of operation which were, in fact, competitors. Both developed an annual payroll of $600,000, and both were subject to exactly the same basic premium rate. One company succeeded in reducing plant accidents to the point where it now pays a premium of $1 per $100 of payroll, while the other, which developed an unfavorable accident record, is charged a debit on the manual rate and pays $3.31 for exactly the same insurance coverage. This difference of $2.31 per $100 of payroll amounts to $13,860 annually. Insurance companies can produce instances where employers have halved their compensation premiums in two years or less by means of well-organized accident prevention programs, and in large establishments this might bring about very substantial savings.

The relationship between safety and financial stability is no less significant in commercial motor vehicle fleet operation. An effective accident prevention program in this field involves, first, careful selection, training, and supervision of all drivers, with incentives offered to men having accident-free records in the form of awards and public recognition; and, second, a preventive maintenance program which provides for systematic inspection and

repair of vehicles by qualified mechanics, adequate tools and equipment, and good employee relationships.

Accidents are bad business. The prevention of accidents is good business. Insurance companies have found that in saving the lives and improving the working conditions of countless thousands of individuals, thus paving the way for greater production, accident prevention has helped to keep the cost of sound insurance protection within the means of purchasers. Business men who have taken advantage of the safety engineering know-how offered by the insurance companies have proved it is good business for them too.

—BY J. DEWEY DORSETT. *Credit and Financial Management,* August, 1949, p. 12:3.

An Analysis of State Taxes on Business

TAXES on business now account for "a vastly enlarged part" of the total of state tax collections, according to an analysis of state taxes on business recently completed by the Conference Board.

These business taxes amounted to 18.1 per cent of total state tax collections (excluding unemployment compensation) in 1948 and 19.1 per cent in 1949, according to the analysis. In 1941, these taxes accounted for "approximately 14.5 per cent" of state collections.

The states now secure more revenue from the corporation income tax than from the individual income tax, the Board finds. The corporation income tax provided the states utilizing this source "with more than $600 million in the fiscal year 1949—326 per cent more than in 1940."

The states collected $115 million from corporate income taxes in 1931, it is noted. These receipts declined to $49 million in 1934. By 1940 they climbed to $155 million, and have risen each year since, excepting 1946.

State and local taxes totaled $14.4 billion in 1948, a rise of almost $5 billion since 1942, according to the Board's findings. State taxes "alone accounted for $7.8 billion in 1948, and increased to $8.3 billion in the fiscal year 1949" (including unemployment compensation).

Operations of Credit Unions in 1948

FULL recovery from the wartime decline was indicated by the 1948 record of credit union activity. In 1947 the prewar high point had been reached and passed, and in 1948 credit unions continued this progress, exceeding all previous records, according to information collected by the U. S. Department of Labor's Bureau of Labor Statistics. Over 3¾ million persons were members of these cooperative credit associations at the end of 1948. Assets passed the $700-million-mark, and business done (loans made) exceeded $600 million. Earnings, as well as dividends on shares, also reached an all-time high.

The greatest advance occurred in amount of loans granted, which increased nearly $178 million, or 39 per cent, over 1947. Reserves increased at about the same rate as loans made, or nearly 38 per cent; at the end of the year, they constituted 11.0 per cent of the total loans outstanding, as compared with 11.4 per cent in 1947.

—Monthly Labor Review 9/49

● RULINGS ON 12,865 pension and deferred profit-sharing plan qualifications were made by the Commissioner of Internal Revenue as of June 30, 1949, a 1,123 *increase* for the year. The cumulative total on termination rulings increased from 484 to 711, while curtailed plan rulings increased from 226 to 401 during the year.

—Employee Benefit Plan Review Supplement 9/49

Insurance

Qualifying a Pension Plan

ONE of the few instances in which the Commissioner of Internal Revenue will rule in advance of a transaction is on the qualification of an employees' retirement plan under I.R.C., Section 165(a). An advance ruling is not essential; a taxpayer may install a plan, hoping that, on audit, the plan will be found to satisfy the requirements of Section 165(a), and the deductions for contributions will be allowed under Section 23(p). However, this is a needless, and may be a dangerous and expensive, gamble. Further, a conference with the Agent on an application for a ruling will frequently reveal and permit elimination of possible difficulties as to expected future deductions.

Full and orderly presentation of necessary facts will expedite the issuance of a favorable advance ruling and, consequently, the inauguration of a plan. Because examination of all new plans is made by Field Agents (subject, of course, to review in Washington), and because the procedure to obtain such a ruling has not been authoritatively prescribed, the details of the manner of presentation necessarily vary considerably in different parts of the country. Here are some general principles.

The First Step: This may sound elementary, but before a plan is submitted, apply every test laid down by the Internal Revenue Code, Regulations, and Rulings. More plans are denied qualification because they fail to meet those tests than because of any defect in presentation.

Mechanics: A request for a ruling is most effectively presented as a somewhat formal application, to which are attached, as exhibits, required documents and computations, such as the trust agreement and the columnar tabulation of information concerning the 25 highest-paid employees. No form for such application is prescribed, but it is logical to arrange it so that it is as easy as possible for the examiner to locate information (e.g., headings and subheadings will break up the text and make it more readable; a table of contents may help).

The application in duplicate, accompanied by a Power of Attorney unless it is made directly by the taxpayer, should be forwarded to the Commissioner of Internal Revenue, Washington 25, D. C. (Attention, Pension Trust Division). The papers will be immediately sent to the appropriate field office.

Contents of the Application: The application should, of course, state the taxpayer's name and address (including the Collection District). It should show whether the taxpayer is a corporation, partnership, or sole proprietor, and the history of the form of doing business, at least for the period (1) for which past-service credits are to be allowed and (2) of service required for eligibility of original participants. For example, if employees must have worked for the employer or a predecessor for five years to be eligible, it might be very important, particularly as to officers, that a cor-

poration, incorporated for only three years, had taken over a partnership.

Generally, it is well to include information, even if only a tabulation of figures for the past five years or so, as to the earnings history of the taxpayer, the number of employees, and the rate of turnover. This may be important in establishing that a plan is "for the exclusive benefit of . . . employees or their beneficiaries."

The plan, its principal purposes, and the funding method should be explained briefly and simply, not by verbatim repetition of its provisions, but in a manner to enable the examiner to determine easily the broad general outlines and intended purposes.

Some facts should be given as to reasons for, and the background of, the adoption of the plan. For example, if it can be shown that the plan was adopted because of some particular concern for employee welfare, or was the result of bargaining, an Agent is less apt to search for possible discrimination in favor of officers, stockholders, or highly-paid employees.

There should be some explanation of any provisions which appear unusual, or which are exceptions to general rules. For example, if some men are retired at 65 and others at 60, it could be explained that the latter are engaged in occupations which are particularly wearing or unsafe for older men.

In addition, the application must cover, by direct statement or by exhibits, all information required by applicable provisions of Reg. 111, Sec. 29.23(p)-2; it is best to follow slavishly the order and language of those provisions.

—By Cyrus B. King. Reprinted from *Central Hanover Pension Bulletin*, August, 1949. Published for Central Hanover Bank and Trust Company, New York, copyright, 1949, by Prentice-Hall, Inc.

Does Death Follow Retirement?

The following letter was sent by the personnel manager of a large industrial establishment in answer to an inquiry from a writer who was preparing an article on the retirement of employees. The author's thesis was that the retired employee, deprived of his regular work routine, lost interest in life, and that his death was hastened because of his retirement. The personnel manager's reply in abbreviated form is reproduced because it contains thoughtful (though in some instances controversial) comments on several phases of the retirement problem which are causing concern to the managements of many companies.

THE subject of retirement is one in which our company has a vital interest, as evidenced by the fact that it has long been providing pensions to its superannuated employees. The program was on a completely informal and uninsured basis until seven years ago, when the plan was underwritten by an insurance company.

It has been our experience that with an assured income following retirement, there is an increasing interest not only in retiring at normal retirement age (65 for men and 60 for women) but in arranging for early retirement. Apparently, membership in a program with published provisions has induced individuals to plan for leisure to pursue avocations of their own choosing.

The life span of employees able to retire on such a pension is as long as that of those who continue actively at work, and possibly longer. This fact

has been obscured by mortality statistics. For instance, the increase during recent decades in average life span has been well publicized. Census life tables show that the average expectation of life for a new-born male child increased from 48 years in the period 1900-1902 to 63 years in the period 1939-1941.

This increase of average length of life, however, has been accomplished through the reduction of fatal disease in the early years of life. There has been no comparable increase in the life expectancy of older persons. Thus, the Census life tables show that a male, age 65, had a further expectation of 11.51 years in 1900-1902, and 12.07 years in the period 1939-1941.

Today, the insurance companies underwriting group annuity plans commonly assume an average life expectancy of 14 to 15 years for a 65-year-old man covered by such a plan.

We have examined statistically the records of our several hundred pensioners since 1925 and find a trend that indicates they will live on the average at least as long and possibly significantly longer than these new estimates of the insurance companies.

For at least our own company, then:

1. Retirement-plan members live longer than the general populace despite prompt retirement.
2. The variation from general population figures is large enough to indicate the importance of retirement as against continuation at work until breakdown of health.

There are two portions to our annuity plan: One portion covers all employees automatically and at no cost to them. It provides a monthly annuity which, for a male employee earning $200 a month with 35 years' service, amounts to $35 a month. The second portion is likewise open to all employees. It calls for joint contributions and supplies a supplementary annuity equal in amount to that under the free plan.

From 1937 to 1945 we required employees to belong to this program as a condition of employment. Each aged employee had a basically sufficient retirement income regardless of the ill chance afflicting personal savings, with two thirds or better of the cost paid by the company. In 1945, we were forced by union pressures to split the plan into its present form so that all employees could withdraw accumulated funds at will for current use. The union demand really was that the plan be discontinued for any employee who wanted to get his funds out. The free annuity was our own costly solution in an attempt to provide each employee with at least some retirement income regardless of his own thrift or vision. I am sad to report that since 1945 more than 2,000 employees have elected to withdraw accumulated funds (out of about 10,000 individuals employed) and thus to reduce their retirement incomes by half, and certainly to the point of inadequacy.

Many companies, not including our own fortunately, have met with real resistance from unions in retiring employees under provisions of retirement programs. In the extreme cases, this has taken the position: This worker doesn't want to retire even though he has a substantial retirement income available; you find a job for him until he changes his mind or dies.

The cost to an employer of an adequate pension plan—from 6 to 10 per cent of payroll exclusive of Social Security taxes—is so high that it is feasible only if it means a more efficient organization. An aged employee is, by and large, less productive; he blocks the advance of younger men, and if in a policy-making position, casts a pall of conservatism. No company can afford the cost of both an adequate

secured retirement plan and an aged organization.

At the same time that pressure is brought to bear by some unions upon employers for delay in retirement, other unions demand earlier retirement ages on the ground that age 65 is "too late" for industrial employees. There is partial truth in this assertion, for in our own case between 30 and 40 per cent of our retired employees have retired prior to age 65 (60 for women) because of ill health.

One of the greatest aids to an employee in preparing for his retirement is definite knowledge far in advance as to the date and definite knowledge of income available after retirement. These are provided by a formal retirement program with a fixed retirement date. A significant portion of the current dissatisfaction on retirement ages seems to have resulted from the necessary wartime relaxation of retirement procedures and consequent unpreparedness of over-age employees for retirement at the end of the war.

An effective (profitable) business organization requires able and cooperative employees. It is both good business practice and compliance with moral standards to attempt to operate in such a manner that the members of the organization find satisfaction for their personal objectives and needs. This necessary consideration of the objectives of the members of the organization leads every company, whether consciously or not, to adopt a program of personnel administration.

Certainly, consideration for aged employees is a portion of the required program—but only a portion, for employees of this class constitute only about 5 per cent of the total personnel of a growing organization. We provide a retirement income, continued life insurance protection, continued hospital and surgical insurance protection, counseling and visiting nurse service, continued information about the affairs of the company, and the like for retired employees. They frequently visit home departments (for which they receive special honorary passes) and attend honorary assemblies. These steps all seem reasonable and profitable portions of an over-all personnel program.

I raise the strongest objection, however, to the implication that industrial management should be held responsible for developing hobbies, recreation, and "a happy life" for retired employees, any more than we should be responsible for investigating active employees to determine whether they make "constructive use" of their own time, and, if not, do it for them. I also object to the implication that by paying an individual fairly for services rendered, an industrial concern acquires any greater responsibility to shield a citizen from the rigors of personal life than an individual personally assumes to the corner grocer who has served him for years, the physician who has treated him, or the handy man he has employed. I object to the implication that industrial employees in some sense have surrendered or lost their freedom and responsibility to stand on their own feet, determine their own destiny and finance it by their own efforts.

—*The Conference Board Management Record* (National Industrial Conference Board, Inc., 247 Park Ave., New York, N. Y.), March, 1949, p. 121:3.

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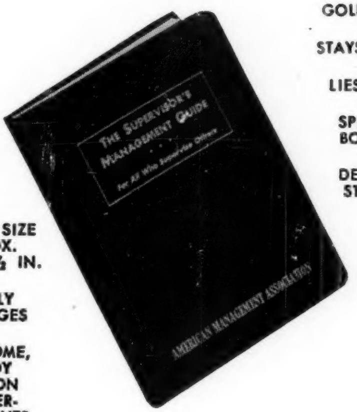

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